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CONFIDENTIAL

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PART II.

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FURTHER CORRESPONDENCE

RESPECTING THE

BAGDAD RAILWAY.

1905.

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Further Correspondence respecting the Bagdad Railway.

PART II.

No. 1.

India Office to Foreign Office.—(Received January 19.)

THE Under-Secretary of State for India presents his compliments to the Under-Secretary of State for Foreign Affairs, and, by direction of Mr. Secretary Brodrick, forwards herewith, for the information of the Secretary of State, copy of correspondence with the Liverpool Chamber of Commerce relative to the Bagdad Railway.

India Office, January 18, 1905.

Inclosure 1 in No. 1.

Liverpool Chamber of Commerce to India Office.

Sir,

Liverpool, December 21, 1904.

I AM directed to inform you that a special general meeting of the members of this Chamber was held on Monday last, the 19th instant, under the chairmanship of Sir Alfred Jones, President, to hear an address by Sir William Haynes Smith (late Administrator and High Commissioner for Cyprus) on the subject of "Cyprus—and the Openings in Asia Minor for British Enterprise."

At the conclusion of Sir William's address the following resolution was passed and ordered to be transmitted to you, viz. :—

Resolved,—"That this meeting of members of the Incorporated Chamber of Commerce of Liverpool, having heard with interest an address by Sir William Haynes Smith on Cyprus and adjacent ports of Asia Minor, desires to call the attention of the Government of India to the question of railway construction in Asia Minor in the direction of the Persian Gulf. In view of the importance to India of any such communication, the Chamber is strongly of opinion that any railway between Bagdad and Koweit, or other port at the head of the Persian Gulf, should be under direct British control, and that if this arrangement has not already been made, steps should at once be taken to insure it."

I am to ask that the suggestion contained in the resolution may receive your favourable consideration.

I am, &c.
(Signed) THOMAS W. BARKER, Secretary.

Inclosure 2 in No. 1.

India Office to Liverpool Chamber of Commerce.

Sir, *India Office, January 10, 1905.*
I AM directed to acknowledge the receipt of your letter of the 21st December, forwarding copy of a resolution passed at a general meeting of the Incorporated Chamber of Commerce of Liverpool, expressing the opinion of the Chamber that any railway which may be constructed between Bagdad and the Persian Gulf should be under direct British control.

In reply, I am to state that the resolution has been submitted to the Secretary of State for India in Council, and that the opinion expressed therein will be communicated to the Foreign Office.

I am, &c.
(Signed) A. GODLEY.

No. 2.

Question asked in the House of Commons, February 23, 1905.

Mr. Reginald Lucas.—To ask the Under-Secretary of State for Foreign Affairs, whether he can give any information as to the present prospect of railway construction in the neighbourhood of Bagdad and the Persian Gulf; whether any schemes are known to be now under consideration; and, if so, by whom they are promoted; and whether His Majesty's Government are exercising any influence in the matter.

Answer.

His Majesty's Government are not aware that any steps have been taken for the construction of the Bagdad Railway beyond the Koniah-Eregli section, which was completed in October 1904, and paid for by a loan raised at Berlin; and they have no knowledge of any schemes for raising the funds necessary for the continuation of the line to the Persian Gulf.

No. 3.

India Office to Foreign Office.—(Received March 13.)

THE Under-Secretary of State for India presents his compliments to the Under-Secretary of State for Foreign Affairs, and, by direction of Mr. Secretary Brodrick, forwards herewith, for the information of the Secretary of State, copy of correspondence relative to the Bagdad Railway.

India Office, March 14, 1905.

Inclosure 1 in No. 3.

Blackburn Chamber of Commerce to India Office.

Sir, *Blackburn, February 17, 1905.*
AT a meeting at this Chamber held on the 15th instant, I was instructed to forward you the annexed Resolution, viz:—

"The Blackburn and District Incorporated Chamber of Commerce desires to call the attention of the Government of India to the question of railway construction in Asia Minor in the direction of the Persian Gulf. In view of the importance to India of any such communication, the Chamber is strongly of opinion that any railway between Bagdad and Koweit or other port at the head of the Persian Gulf should be

under direct British control, and if this arrangement has not already been made, steps should be at once taken to insure it."

I have, &c.
(Signed) JOSEPH WATSON,
Secretary.

Inclosure 2 in No. 3.

India Office to Blackburn Chamber of Commerce.

Sir, *India Office, March 1, 1905.*
I AM directed to acknowledge the receipt of your letter of the 17th ultimo, forwarding copy of a Resolution passed at a meeting of the Blackburn and District Incorporated Chamber of Commerce, expressing the opinion of the Chamber that any railway which may be constructed between Bagdad and the Persian Gulf should be under direct British control.

In reply, I am to state that the Resolution has been submitted to the Secretary of State for India, and that the opinion expressed therein will be communicated to the Foreign Office.

I am, &c.
[Unsigned.]

No. 4.

India Office to Foreign Office.—(Received April 11.)

WITH reference to this Office letters of the 18th January and 14th March last, the Under-Secretary of State for India presents his compliments to the Under-Secretary of State for Foreign Affairs, and, by direction of Mr. Secretary Brodrick, forwards herewith, for the information of the Secretary of State, copy of a letter from the Huddersfield Incorporated Chamber of Commerce relative to the Bagdad Railway.

India Office, April 10, 1905.

Inclosure in No. 4.

Huddersfield Incorporated Chamber of Commerce to India Office.

Sir, *Huddersfield, March 2, 1905.*
I AM directed by the Council of this Chamber to support the Resolution which was passed by the Liverpool Chamber of Commerce on the subject of "Cyprus and the adjacent parts of Asia Minor," a copy of which has been sent to you, and to express the hope that the matter will be favourably considered by His Majesty's Government.
I have, &c.
(Signed) Illegible, Secretary.

No. 5.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received April 17.)

(No. 206.)
My Lord,

Constantinople, April 3, 1905.
I HAVE the honour to transmit herewith copy of a despatch and its inclosures from His Majesty's Consul-General at Bagdad, giving an account of the proceedings of Sir W. Willcocks, who has been staying for some little time at Bagdad in connection with his scheme for restoring the old irrigation system in Mesopotamia. Major Newmarch also makes some observations of the importance which such a scheme may assume in connection with the German Bagdad Railway.

Whatever may be the result of Sir W. Willcocks' studies and reports, it is to be regretted that he communicated his views at this stage to the German and French

Consuls. They are sure to report the circumstances to their Governments, and it will be in the interests of Germany, and probably of France also, to impede any negotiations that may possibly take place here until they are satisfied that their own interests will be fully protected.

I am, however, somewhat sceptical as to the possibility of putting through any scheme such as Sir W. Willcocks' studies indicate during the lifetime of the present Sultan, whose suspicion of British policy in those regions is, I fear, ingrained.

I have, &c.

(Signed) N. B. O'CONOR.

Inclosure 1 in No. 5.

Consul-General Newmarch to Sir N. O'Conor.

(No. 16.)

Sir,

Bagdad, March 6, 1905.

I HAVE the honour to submit, for your Excellency's information, extracts from my diaries to the Government of India regarding Sir William Willcocks' recent tours in this vinyet in connection with his irrigation schemes, and regarding the arrival at Bagdad of certain Germans and others in connection with the Bagdad Railway.

I have, &c.

(Signed) L. S. NEWMARCH, Major.

Inclosure 2 in No. 5.

Extracts from Diaries sent to the Government of India by the Political Resident in Turkish Arabia and His Britannic Majesty's Consul-General, Bagdad.

(1.) For Week ending January 16, 1905.

SIR WILLIAM WILLCOCKS is still staying with me. He has travelled down the course of the Nahrwan Canal from a little north of Samarra down to Ctesiphon, and down the Euphrates from Falaia to Musayib. He has also examined the old canals and the country between the Euphrates and the Tigris. He is much pleased with the results of his journeys, and speaks in the most enthusiastic terms of the prospects and facility of irrigating Mesopotamia. He is convinced that it would be most remunerative and quite easy—far easier, indeed, than he had anticipated—because the level of the Euphrates is 4 or 5 metres higher than the level of the Tigris. He contemplates irrigating Mesopotamia from the Euphrates by canals whose surplus waters would flow into the Tigris, thus increasing the depth of that river in its low season and lessening the extent of the marshes, which are at present the curse of the lower Euphrates. He has collected much information regarding those two rivers, their current, their discharge, their sections, and also regarding the cost of labour, carriage, and materials, the population, the number and kinds of cattle and horses in the country to be served, the number and sizes of boats, and other means of transport. He has also collected many samples of the soil which he has sent to Cairo to be chemically analyzed. He intends leaving for Egypt on the 17th instant. He has had two interviews with the Vali, and has also met M. Chuchod, a French engineer, at present specially employed on the repair of the Hindiya "barrage." He has also had interviews with the French and German Consuls and with most of the British merchants in Bagdad.

As might have been expected, his visit, coinciding with that of Messrs. Lorimer and Gabriel, has given rise to many rumours and excited many suspicions, some of which are unfortunately of an anti-English character.

(2.) For the Week ending January 23, 1905.

Sir William Willcocks left Bagdad on the 17th January. His object is to make another Egypt of Mesopotamia, and he seems to me to be just the man to do it, if only the Sultan can be persuaded to give him the opportunity. His idea at present is

to start a Company (English, if possible; failing that, international; or, lastly, German) for improving the irrigation and the navigation of the Tigris and Euphrates.

He hopes to get the large capitalists of Europe to support his scheme, and to bribe the Sultan into accepting it by offering him a large share of the profits, or by offering to improve and develop his private lands (the Saniya)—which are already extensive, and yearly extending, in this part of the country—by irrigation, or by offering to develop his line of steamers (now six in number) in carrying the produce of the newly-irrigated land to Bussorah. His schemes are very large, and the capital required would probably not be less than 20 millions. The great, and probably the only, difficulty will be to secure the Sultan's consent.

The development of Mesopotamia in this direction would give a stimulus to, and even provide funds for, the Bagdad Railway, though if the navigation of the river were improved the railway would probably find it difficult to compete with the river-borne traffic, and the Sultan would develop his line of steamers at the expense of the railway.

(3.) For the Week ending February 27, 1905.

I note below an extract from the London Letter of the "Diamond Fields Advertiser," of the 17th December, 1904, which is, I am credibly informed, an important and trustworthy newspaper:—

"NEW RUSSIAN LOAN.—A week or two ago I commented upon Russia's urgent need for money. The details of the new war loan are now announced. The interest is to be 5 per cent., and the total amount of the issue will be 52,000,000*l.* As I hinted, 20,000,000*l.* is to be taken up by German financiers, and the balance by Frenchmen. The remarkable features of the whole matter, however, do not appear in these dry figures. They lie in the advantages which Germany has been able to squeeze from her unfortunate neighbour. These represent a very substantial bonus beyond anything that France—the real ally—has obtained. Russia has made a definite promise to spend some 200,000,000 *fr.* of the loan upon German war-ships. Moreover, Count von Bülow has extracted a promise that Russia will withdraw her opposition to the Bagdad Railway scheme. Germany evidently has determined not to throw away any cards she may think of value, though playing them may scarcely seem to be within the rules of the game. It must, however, be pointed out that this mixing of commerce and finance with diplomacy is not a desirable thing. International politics are none too sweet at present, and their condition is not likely to be improved by the introduction of a large measure of German-Jew finance."

The date coincided very nearly with the departure from Germany of certain representatives (Herr Quandt and another) of the Deutscher Bank, who are now in Bagdad, in company with four or five other persons of different nationalities, who are said to be either engineers of the Bagdad Railway or prospectors for petroleum. My information leads me to think that they have come to examine the country generally, but perhaps chiefly for petroleum. They have come from Aleppo down the Euphrates, and intend to return northwards via Mosul along the Tigris. I am told that, so far, they are disappointed with what they have seen. One of their party asked one of my dragomans, who knows German well, to translate for him the essential parts of Sir William Willcocks' pamphlet on the "Re-creation of Chaldaea," but my dragoman declined, as I had not been consulted. I have heard from the German Consul here that they think very highly of Sir William Willcocks' schemes, and realize how useful to the railway their development would be. It may be that they have come here to examine the country, with a view to monopolizing Sir William Willcocks' services. The Germans could probably get permission to irrigate Mesopotamia more readily than any other nation, and I have heard on good authority that the Deutscher Bank is ready to provide the money for it, even up to 20,000,000*l.*

The foregoing information may be useful when collated with similar information from other sources.

(4.) For the Week ending March 6, 1905.

The Bagdad Railway.

I have had a conversation with one of the party referred to in my diary of last week, a geological expert who is a Swiss subject—I think his name was Dr. Küssling. I gathered from him that the opinion of himself and his party was that the railway

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would not pay south of Mosul, if even so far south, and that their object was to find out how it could be made more remunerative by the development of mineral production, agriculture, and irrigation. I gathered that, so far, he had been disappointed in the geological aspect of the country, but seemed much impressed by the fertility of the soil and the prospects of agricultural development by irrigation. He dwelt much on Sir William Willcocks' schemes for irrigating Mesopotamia.

The visit of this party of exploration has, of course, given rise to much local comment, and the American Consul, with whom Dr. Kressling has been staying, and with whom he has apparently discussed the subject a good deal, is of opinion that the progress of the railway depends almost entirely on the present relations between the German Emperor and the Sultan, and that if either were to die the future progress of the railway might be obstructed by the Turks.

An opinion seems to be gaining ground here that if the railway ever gets as far as Bagdad it will never go south of it, but will discharge its contents into the river steamers here, whose number will be largely increased. River carriage would, of course, be cheaper than carriage by rail.

The foregoing is almost gossip, but it may be useful when compared with information from other sources, and that must be my excuse for noting it.

(Signed) L. S. NEWMARCH, Major.

No. 6.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received April 24.)

(No. 238.)

My Lord,

Constantinople, April 14, 1905.

I HAVE the honour to forward to your Lordship herewith copy of a despatch from His Majesty's Consul-General at Bagdad, submitting the names of the Bagdad Railway Commission who have recently visited Bagdad.

I have, &c.

(Signed) N. R. O'CONOR.

Inclosure in No. 6.

Consul-General Newmarch to Sir N. O'Connor.

(No. 169.)

Sir,

Bagdad, March 8, 1905.

I HAVE the honour to submit, for your Excellency's information, the following extract from my diary to the Government of India of to-day's date:—

"The Bagdad Railway.

"The following are the names of the Commission that lately visited Bagdad—

"Dr. Porro, Geologist and Head of the Commission.

"Professor Kressling, Geologist.

"Dr. Quandt, Head of the Commercial Branch of the Deutscher Bank.

"M. Ashanian, an Armenian representing the Ottoman Government.

"Dr. Rifat, Medical Officer.

"M. Soutari, Engineer.

"It is said here that the profits of any geological products (mines, petroleum, &c.) will be shared equally between the railway administration and Dar-us-Saniah (i.e., the Sultan).

"The expedition is going to visit Memdali, Khanakin, Zakkho, and Mosul, and will return to Germany via Basrah.

"One of the objects of the Commission is said to be 'examiner les moyens avec lesquels le commerce Allemand pourra concourir avec celui de l'Angleterre,' but, perhaps, this is inserted in order to interest the British Consul-General."

I have, &c.

(Signed) L. S. NEWMARCH, Major.

No. 7.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received June 19.)

(No. 324.)

My Lord,

Constantinople, June 6, 1905.

I HAVE the honour to inclose herewith to your Lordship a report by Colonel Maunsell on his inspection of the Konia-Eregli section of the Bagdad Railway, also some interesting remarks on the further section from Eregli to Hamidie passing over or through the Taurus range.

I understand that the former section cost little more than half the sum provided for its construction by the German and French Syndicate, and that the profits on the enterprise, amounting to something like 800,000*l.*, have been distributed to the bankers and others who participated in the scheme.

The next section will, I am assured, cost something like 16,000*l.* a kilometre over a considerable distance. The bankers who have derived profit from the first section are unwilling to lose their profits, and both German and French financiers would, I believe, be glad to see the London market open to them, and the negotiations resumed for the formation of a British Syndicate before the further extension of the line is attempted.

I have, &c.

(Signed) N. R. O'CONOR.

Inclosure 1 in No. 7.

Lieutenant-Colonel Maunsell to Sir N. O'Connor.

(No. 34.)

Sir,

Constantinople, June 6, 1905.

I HAVE the honour to forward herewith a detailed report on the section of the Bagdad Railway, now open from Konia to Bulgurlu (near Eregli), travelled over on my return recently from Syria.

I also attach the proposals for the future track along the next two sections of 200 kilom. each, reaching to Birjik, which were explained on a map to me by the German Consul at Konia.

I have, &c.

(Signed) P. R. MAUNSELL, Military Attaché.

Inclosure 2 in No. 7.

Report on the Bagdad Railway—Section Konia-Bulgurlu (near Eregli).

THE first section of 200 kilom. from Konia of the Bagdad Railway was opened for traffic in October 1904.

It carries the line some 18 miles beyond Eregli to Bulgurlu, a small village some distance from the station, which is a small one, but treated as a terminus for this working section of the line. For practically the whole distance the line traverses the southern edge of the wide plain of the Central Anatolian plateau, the southern hills lying 15 to 20 miles to the south.

The only town of any importance on the route is Karaman, to reach which a loop to the south is made. The line is generally level, but there are some gradients on the section between Airanji, Derbend, and Alaia, near Eregli, where is a long gradient of $\frac{1}{4}$ for 4,600 millim., which makes an appreciable obstacle to heavy goods traffic.

There are no bridges of any importance, but the culverts are well constructed and solidly built.

The line is specially laid for heavy traffic, with heavier and longer rails than the Anatolian (see comparison of weights, &c.), and with a special pattern of sleeper and fish-plate designed for heavy traffic (see drawings).

When the line has settled down as regards ballast, and when there is a sufficiency of through traffic on the opening of the Taurus section to Adana, it is intended to run trains at 120 kilom., or 74 miles an hour.

Special engines have been purchased (A. Borsig, of Berlin) for this purpose, both

for goods and passenger traffic, and on the opening day a train attained a high speed for a short distance.

The station buildings are exceptionally strong, well constructed of stone and brick, completely furnished in every detail, including a large bronze bell, on which "Bagdad" has been cast.

Allowance has been made for a probable increase in traffic as the country becomes more opened up, and the grain trade especially has time to develop.

The wide plain between Konia and Ereğli is not at present cultivated to a tithe of its capacity, largely because of want of population, the country being capable of supporting a far larger number than it does at present, and as it did in ancient times.

European colonization is not accepted by the Sultan, as I understand he has refused to consider an Austrian project for a colony near Ereğli.

Konia is a town of 50,000 inhabitants, of whom some 5,000 are Armenians and Greeks, is the capital of the vilayet, and the principal trade centre for this part of the plateau.

It has, however, no easy communication to the south towards the coast.

Karaman is a place of some 3,000 inhabitants, of whom 500 are Greek, and a good route leads to Selefke, on the Asia Minor coast to the south-east.

Ereğli itself is a place of 6,000 inhabitants, including about 1,000 Greeks and Armenians.

These are the only places of any size, and each is surrounded by a belt of gardens and a wider circle of cultivated ground.

It is proposed to erect a large repairing works at Ereğli similar to those at Eskishahr on the Anatolian line.

Near the Ereğli Station a row of substantial villas have been erected for the engineers and overseers on the next section of the line through the Taurus. This is necessary, as it is impossible to obtain accommodation in Ereğli for Europeans suitable for a long stay through the severe winter (see photograph of houses).

The rolling-stock of the Bagdad section is similar to that in use on the Anatolian, and the latter circulates over the Bagdad part, although some trucks are marked "Bagdad." It is proposed to improve the service on the line, and run a through express from Haider Pasha to Konia.

The carriages for this train have just arrived at Haider Pasha, and are most luxurious, fitted with electric light, and heated with steam, with sleeping accommodation and a restaurant car to be added.

Proposals for the Continuation of the Bagdad Railway.

Although nothing definite has been yet arranged regarding the financial scheme for finding a guarantee for the next sections to the eastward of the Bagdad line, the country has been surveyed and proposals drawn up for the next 400 kilom. from Bulgurlu, or two sections of 200 kilom. each.

The first section includes the passage of the Taurus, and will bring the line as far as Hamidié, on the Cilician plain, after passing through Adana, where it will join the Mersina-Tarsus-Adana line.

By landing materials at Mersina, it will be possible to commence work on this Taurus section from both ends, i.e., from the upper at Bulgurlu, and from Adana in the coast plain.

This will shorten the time of construction appreciably.

From Bulgurlu (3,600 feet) the line will have to wind up to the bare col of the Kacdash Bel (5,070 feet), near Ulu Kishla, which is the watershed of streams going to the Mediterranean. There will be a tunnel at the summit to avoid too steep a gradient. From Ulu Kishla the stream valley of the Chakit will be followed all the way to Adana, partly through open valley and partly through rocky gorges.

The upper part of the valley near Ulu Kishla is open and easy for railway construction for 15 kilom. below that place, after which the valley closes somewhat with sides of soft rock and clay with numerous side ravines.

At Chifte Khan, for 2 miles, the river is in a narrow gorge, and construction would be somewhat difficult; but at the Khan, a large valley joins from the silver-lead mines of Bulgar Maden, 18 kilom. to the south-west, and the valley opens again.

Between the Takhta Keupri and the Ak Keupri is a narrow valley with steep, rocky sides of very hard limestone formation for about 5 kilom., where the road runs close alongside the stream, but where tunnelling would be required for the railway.

Below Ak Keupri, and near Bozanti Khan, the river valley opens; the road to Adana and Tarsus through the Cilician Gates winds over the hills to the south and descends by the valley of another stream. The railway is designed to follow the Chakit the whole way to Adana. A few miles below Bozanti Khan the Chakit Gorge closes in, and for the remaining 70 kilom. to Adana there will be much cutting and tunnelling in the hard limestone rock of the cliffs, which close in the gorge on either hand. It is said that, altogether, seventy-seven tunnels of various sizes will be necessary on this section.

Some change in the present Regulations forbidding the use of dynamite, or any similar explosives, for blasting rock will have to be made. The Turkish Government powder, which alone is allowed to be employed, is too weak for this purpose, and for the hard limestone of the Chakit Gorge would be almost useless, except at a great expenditure of time and trouble.

Continuation beyond the Cilician Plain.

Beyond Adana construction is easy over the Cilician Plain, but to reach Killis and the Aleppo district, the long unbroken range of the Amanus, abutting on Ras-el-Khazir, in the Gulf of Alexandretta, has to be crossed. The original trace of the railway crosses this range at the Baghebe Pass, passing by Osmanli ranches Kazzali, and then continues to Killis.

This passage is by no means easy; involves some severe gradients, owing to the steep slope on the east side, and also some tunnels. Consequently, other routes have been proposed.

One follows the gorge of the Jaihun River to the north and winds round by Marash and Aintab, but this involves much rock-cutting and difficulties, and has been practically abandoned.

The other alternative is to construct the line from Hamidié along the coast to near Payas (a few miles north of it), and then turn through a pass in the hills by the Chardak Pass, leading on Hama in the broad valley on the east of the mountain; thence the line could run direct to Killis.

The original trace of the railway in the Concession allowed for a branch to a port at Kastabel, on the Gulf of Alexandretta. From the reports of officers, naval and others, who have visited this place, it is quite open, and unsuited for the construction of a large port.

The newer proposals seem to have dropped the idea of any construction there at all, and probably the name was only introduced into the Concession to obtain the right of making a port somewhere on the gulf.

Yimurtaluk, in Ayas Bay, is rather shallow, and is always in danger of being silted up by the delta of the Jaihun. Mersina is a perfectly open roadstead, and vessels have now to anchor 2 miles or more from the shore.

The expense of making a good port there would be prohibitive in consequence. There remains only Alexandretta, which is even now the best port in North Syria, with deep water close in shore.

A good port could readily be made with a comparatively small expenditure. It is proposed, therefore, to make a branch from near Payas to run along the coast to Alexandretta, where a port would be made.

This alternative scheme through the Chardak Pass, with a branch to Alexandretta, is most in favour at present.

The principal difficulty to overcome is the well-known objection of the Sultan to allowing the line to pass near the sea, but it is thought this might be got over as he has already consented to a port at Kastabel, although it is mentioned as provisional only in the Concession.

Passing east of Killis the original trace of the line leads towards Jerablus on the Euphrates, and then towards Hama; but the newer proposals seem to indicate that the line would cross at Birjick, and follow a more northern trace through Urfa.

The distance of 400 kilom. from Bulgurlu would just bring the line to Birjick.

With the branch to Aleppo from Tel-Habesh, as originally proposed, the prolongation of the French line from Rayak through Hama and Hama to Aleppo, now under construction, would be met with.

I have, &c.

(Signed) F. R. MAUNSELL, Lieutenant-Colonel.

Inclosure 3 in No. 7.

Map and Photographs.

[Not printed.]

No. 8.

Memorandum communicated by Board of Trade, June 23, 1905.

THE accompanying Memorandum on the Bagdad Railway, prepared in this Department by Captain Bigham, summarizes very well the main features—commercial, financial, and political—of the project, and deals with the question of British participation therein.

The available evidence indicates that the Germans are likely to persevere with the scheme and finally to accomplish it, with or without our co-operation, and that they may be able to do so even without the raising of Turkish customs duties from 8 to 11 per cent., in order to provide the necessary guarantee—a measure which would require the assent of the Powers. On the other hand, it would probably be difficult to find the necessary funds for the guarantee out of the tithe revenues alone, and the financial difficulty is especially acute at the present time when the Germans are about to enter on the construction of the most costly and difficult part of the railway, involving the piercing of the Taurus Mountains. If the Germans are willing to give us good terms in return for our co-operation, they are much more likely to do so now than they will be after they have overcome the greatest difficulty of construction and the railway has emerged into the plains. We should therefore consider our policy without delay.

The railway, either as a whole or as regards the section from Bagdad to the Persian Gulf (in which we are predominantly interested), is not likely to pay its way without a subsidy for many years to come, though it is impossible to forecast the results that might follow if a large investment of capital took place in irrigation works, which might restore fertility and ultimately attract population to Lower Mesopotamia.

With the kilometric guarantee for construction and working expenses provided in the Concession, the railway is likely to be a safe investment unless the cost of construction should enormously exceed the estimate. It is true that for some years the receipts added to the guarantee for working expenses will probably fall below or only barely reach the expenses of working the line, but there should be a surplus from the guarantee (of about 700*l.* per mile) for interest on the cost of construction which would amply meet any deficit.

Our aim, if any negotiations were undertaken, should be to secure the predominance of British capital and direction in the construction and administration of the section of the line from the Persian Gulf to Bagdad or possibly further, say, to Tekrit or even to Mosul. This would balance the predominantly German character of the existing Anatolian Railway as far as Konia.

Some working arrangement for pooling the general traffic over the whole line would be necessary, giving Great Britain adequate representation on the general directorate. It would be necessary to secure such a modification of the Concession as would permit of the working of the Persian Gulf section of the line as constructed, instead of waiting for the completion of the entire railway which, conceivably, might never take place, as the district between Mosul and Ourfa is exceedingly disturbed, and lawless and unexpected obstacles to railway construction might arise.

An important subsidiary question would be the control of or at least equal rights of participation in the navigation of the Tigris, the steamers on which, with the exception of a limited number of Messrs. Lynch's steamers, are a private adventure of the Sultan.

Until negotiations were opened it would be impossible to say how far the Germans would be ready to meet us with regard to these conditions, but the whole question is too serious to be allowed to drift.

The Defence Committee and the Foreign Office have recently been considering it from their points of view.

(Initialed) H. L. S.

June 6, 1905.

Memorandum on the Bagdad Railway, and possible British participation therein.

1. This Memorandum deals with the question of possible British co-operation in the construction of the Bagdad Railway.

2. The following official papers, &c., have been consulted, among others, and when cited in the text are referred to by the letters shown opposite their names below:—

(A). Foreign Office Print. Correspondence respecting the Bagdad Railway, 1903-1905.

(B). Foreign Office Print. Other despatches of Sir N. R. O'Connor, 1902-1905.

(C). Committee of Imperial Defence. Sir G. Clarke's Memorandum (section 47 a), January 1905.

(D). Committee of Imperial Defence. A paper relating to the German Ambassador in Constantinople, April 1905.

(E). General Staff Papers. Military Report on Arabia, 1904.

(F). General Staff Papers. Captain Smyth's Reconnaissance, 1903.

(G). Board of Trade publications. Mr. MacLean's Commercial Mission to Persia, 1904 (Cd. 2146).

In addition, the publications of Dr. Rohrbach ("Die Bagdadbahn," 1902), A. Chénédole ("Le Chemin de Fer de Bagdad," 1903), and Sir W. Willcocks ("The Restoration of the Ancient Irrigation Works on the Tigris," 1903), and the Reports of the Anatolian Railway Company have been referred to, as has a personal knowledge of different parts of the route and of the country concerned.

3. It has appeared unnecessary to recapitulate the history of the Bagdad Railway Scheme from its inception in its present phase in 1899 up to the present date. A résumé of it is given in the Appendix to (C) (Sir G. Clarke's Memorandum), and its more detailed progress is to be found in (A) and (B) (Foreign Office correspondence and Sir N. R. O'Connor's despatches).

The actual position of affairs at the time of writing is that the German Company which holds the Concession has managed, notwithstanding our refusal in 1903, to participate in the undertaking:—

(a.) To build the first section of the line (125 miles) from Konia to Ereğli;

(b.) To save about 1,000,000*l.* from the capital which they had raised from the Turkish Government's guarantee for the construction of this section—a sum which they now have in hand for future expenses; and

(c.) To induce the Porte to agree to hypothecate further revenues, *i.e.*, to give a fresh guarantee for the construction of the second section from Ereğli to Adana.

4. The Germans, however, are not satisfied with a guarantee for only one section, they require it for two: for the section to Adana and for the next beyond, which would bring the railhead to a point slightly north of Aleppo. Their reason is that the Ereğli-Adana section, which has to pierce the Taurus Mountains, will involve heavy work, and they wish "to recoup themselves on the level for the great expense that must be incurred." For the moment things are at a standstill, but "it is thought that they will in reasonable time come to terms with the Porte, and that the security will be found." When the present Sultan's Germanophile tendencies are considered, and his strong desire to see his favourite Mecca Railway connected with Constantinople is remembered, this forecast does not seem to be improbable.

5. If the Germans do succeed in getting a satisfactory guarantee for the two sections, there is not likely to be much difficulty in raising the necessary capital in Germany, and with that capital and with the 1,000,000*l.* they already have in hand, there is no reason to doubt that the most costly portion of the line will be built—probably without our participation.

Without entering into the various motives that have incited and sustained the Germans in the promotion of this railway, it seems evident that they have a very strong desire to complete it. Their general tactics of recent years with regard to Turkey have been to strengthen her—the antithesis of the immemorial policy of Russia—and the stronger Turkey grows the more Germany is willing to invest in her. The weakening of Russia and the increase of the internal communications of Anatolia, two events which are at present in progress, may both be said to lend strength to

(G.), p. 2.
(D.), p. 1.

Rohrbach.

Turkey, which means to attract further capital from Germany. It would therefore be unwise to predict that, even if the double guarantee is not forthcoming, sufficient money will not be found to complete the two sections.

6. Once this were done and the railway was working from Constantinople (Haidar Pasha) to Aleppo (the branch to this town from the main line is very short) the Germans would find themselves in an exceedingly strong position. They would be in complete control of the principal railways in Anatolia, they would command part of the route from the Sultan's capital to the holy cities of Arabia (the French Company are already negotiating for the completion of the last section of their line from Hama to Aleppo) and they would have secured connection with three seaports on the Cilician and Syrian seaboard (Mersina, Beyrout, and Acre). They would have built more than a quarter of their line and would be only 400 miles of easy country distant from Mosul or 600 from Bagdad, either of which places might conceivably be their terminus in the event of their determining to use the River Tigris instead of building a railway to the Persian Gulf.

In such a position they might well be much less disposed to require or even to accept our assistance than they are now. This is a contingency that seems worth consideration.

7. If, however, the Germans do not succeed in getting the double guarantee from the Sultan they may—

(a.) Either content themselves with the guarantee for the second section only, of which it is understood they have the refusal; or

(b.) They may cast about to bring in extraneous capital.

The former of these alternatives is by no means impossible. They would presumably receive the same class of guarantee that they have already had for the Konia-Eregli section. This, capitalised in the same way as before, should produce over 2,000,000*l.* in addition to which they have 1,000,000*l.* in hand. To reach Adana they have 125 miles of line to build through what is certainly difficult and mountainous country. According to Rohrbach it "will probably involve the construction of a tunnel several kilometres in length." Now the Konia-Eregli section was built at the rate of about 6,000*l.* a mile. Allowing 10,000*l.* a mile for the construction of the Eregli-Adana section there still remains a balance of nearly 1,000,000*l.* for tunnelling, and this, at the high rate of the St. Gothard tunnel, is sufficient for four solid miles of such work. From personal recollections of the road, over which the present writer has driven in a cart, it is not to be compared for difficulty with the Alps.

Once the Germans are at Adana they have again considerably improved their position, for they are, by means of the existing Adana-Mersina railway, in communication with the sea, and can at once begin working the line both for the export of cereals and the import of railway material.

Without suggesting that they would then refuse to admit British co-operation—as they might do had they succeeded in getting as far as Aleppo—it still appears likely that they would be less inclined to give us favourable terms than they are at present, with the terrors of the Taurus looming ahead.

8. It would therefore seem that, if negotiations are to be resumed, the present is the most auspicious moment that is likely to be afforded us. Although too much importance should not be attached to the clause which compels the Germans to complete the line in eight years from the date of signature of the Convention—for the modification of such clauses is not very arduous to *persons gratis* at Constantinople—yet the fact that only some five years are left in which to build nine-tenths of the line cannot but cause them to feel a little anxious at the present juncture.

9. The next point that needs consideration is whether participation in the scheme is likely to be beneficial to us or the reverse.

10. The General Staff, in a Memorandum of the 15th November, 1904 (45 a), "pointed out the disadvantages—political, commercial, and strategic—which the control by Germany of a line to the Persian Gulf would entail upon Great Britain." Accepting their views as to the strategic disadvantages—which are, indeed, sufficiently obvious—it is worth while examining the question from the point of view of British prestige and of British trade.

11. British prestige, in so far as it exists independently of our trade in the valleys of the Tigris and Euphrates, appears to be principally connected, firstly, with the control and influence that we exercise, more than any other Power, over various portions of the Arabian Peninsula and of the Arab race along the Red Sea, the Indian

Ocean, and the Persian Gulf; and, secondly, with the large pilgrim traffic that moves every year between India and Kerbela, on the Euphrates.

It is difficult to discern how either our general consideration in the eyes of the Arabs or our particular position as the local protector of the Shia^a section of the Mohammedan faith are to benefit by the introduction of a new and powerful Frankish nation in this part of the Ottoman Empire.

There is also little doubt that any loss of prestige we might thereby sustain would react on our position in Southern and Western Persia, and probably still further afield in the more central countries of Asia.

12. The question as to how British commercial prospects are likely to be affected is more within the province of the Board of Trade. The trade of Bagdad and Bussorah was in 1903 valued at some 2,500,000*l.* Most of this was British or Indian, and, in addition, we do about half the carrying trade on the River Tigris, the other half being in the hands of an Ottoman Company belonging to the Sultan. Is this British trade likely to be increased or diminished by the advent of an all-German railway?

13. The following is the opinion of Sir N. R. O'Connor (A, p. 33):—

"Nor must it be forgotten that the Railway Concession carries with it many valuable privileges and advantages. Apart from the large orders for materials for railway construction, &c., it secures extensive mining rights on each side of the line, the right of navigation of the Tigris and Euphrates during the construction of the railway—a concession which will probably be unlimitedly extended—a commercial outlet either at Koweit or elsewhere in the Persian Gulf, an exceptionally favourable position in the future for all enterprise connected with the irrigation of Mesopotamia, &c. Moreover, it can hardly be supposed that no effort will be made to supplant British navigation in its privileged position in the Persian Gulf, and to take advantage of the opportunity to compete with British shipping in those waters."

Sir G. Clarke, in the Committee of Imperial Defence Memorandum of January 1905, says:—

"We are therefore confronted with a project which, if carried out under German auspices, will undoubtedly inflict grave injury upon our commerce. . . ."

Mr. Waugh, Vice-Consul at Constantinople, who prepared a Memorandum on the whole question in August 1903, comes to the conclusion—

"That, in the event of the development of the country, the Bagdad Railway in German hands might be made a powerful instrument for furthering German commerce to the detriment of its rivals."

Dr. Rohrbach is evidently of the opinion that German trade is going to benefit by the railway, which, taking into account the usual German methods towards their commercial rivals, is unlikely to mean that British trade will benefit also.

14. A more detailed consideration of the terms of the Concession itself, and of the various rights it gives, beyond those enumerated in the preceding Article, such as construction of brick and tile factories, establishment of warehouses, quays, and ports, and free use of water power for electricity, shows that the commercial possibilities the Germans have in their possession are by no means small. They have already instituted a system of Commercial Agents in Anatolia, they are planning an agricultural bank, and it can hardly be doubted that their skill in the imposition of preferential rates will be exercised in the future. Particularly anxious would they be to oust us from the Tigris navigation, and with the Sultan, who is himself personally interested in the enterprise, to assist them, they would no doubt succeed in their desires in time. Sir W. Willcocks (p. 27) even suggests that with the development of irrigation the Tigris stream may fail for navigation purposes, in which case our steamer service would not have very encouraging prospects.

15. Accordingly, it would appear, again, to be very unwise to assume that British trade would not find itself in a worse position than it is in at present were an all-German line to the Persian Gulf to be constructed. We should be unlikely to receive

^a The Shia Mohammedans belong generally to India and Persia, the Sunnis (orthodox), to Turkey and Afghanistan.

anything new, and quite likely to lose part of what we already possess. A very important and possible contingency be ignored of the Germans eventually by means of the revenues assigned for the kilometre guarantee, or otherwise, getting control of the Turkish customs (see paragraph 17).

16. On the other hand, were the line to be made a joint concern, or to be internationalized, the damage to our prestige would not be so evident, and to our military interests would be considerably modified, while the competition which our commerce would incur should be rather stimulating than crushing.

17. As regards the investment from the bondholder's stand-point, it is regarded as quite safe under the existing system of kilometre guarantee. It would be secured on provincial revenues which would be collected by the Administration of the Debt, revenues which usually produce more than the guarantee (about 7000, a-mile) requires. Recent experience has also shown that a railway has generally increased the yielding power of the tithe of the provinces through which it passes. The bonds (4 per cent.) which would be issued by the Turkish Government were the last case taken up at about 80, which gives an interest of 1½ per cent., and the bond-

18. There is, however, some doubt as to what reliable provincial revenues remain to be hypothecated, as it has already been found necessary to assign some of the tithe of the Bagdad Vilayet to the Konia-Bregli section, and the suggestion has accordingly been put forward that a 3 per cent. increase on the Turkish Customs duties, which would give 500,000, per annum and would be ample to cover the interest on the capital required for the construction of the whole line, should be pledged as the guarantee. To do this it would be necessary, under Article 8 of the Decree of Muharram of 1881, to obtain the consent of the Council of the Ottoman Public Debt but Sir N. O'Connor is sanguine of this being obtained.

It need hardly be said that without the hypothecation of these or some other analogous revenues for the kilometre guarantee, the investment considered commercially would be by no means secure, from the point of view of the bondholders. Nevertheless, it might not be unwise, and from political considerations it might almost appear to be the best course open in the final resort, for British capital to participate in the venture on the security of the railway alone. The purchase of the Suez Canal shares in 1875, is to some extent analogous, but it seems probable that in the present instance some form of guarantee would be necessary from His Majesty's Government.

19. The next question is that of working expenses. Here again there is a guarantee secured on the same basis as that for construction, of about 3000, a-mile. It is to be noted that there was in the first year of its operation, by Dr. Kohnke, at about 200, a-mile, with the same guarantee. The average expenses of the Anatolian Railway for the first year of its operation, 1880-81, were 1000, a-mile. It is to be noted that the average expenses of similar types of railways in Asia (where many more trains are run) prior to the completion of the Trans-Siberian Railway (1898-99), only reached 750, per mile.

Supposing, however, that the whole line were built and that there was a continuous loss of 1000, a-mile over its entire length of 1,250 miles—an improbable event presuming the 3000, guarantee per mile to be regularly paid, and considering that 2000, a-mile is by no means a high figure for traffic receipts—the total deficit would even then only amount to 125,000, a-year, of which the British would, at the most, be liable for one-half—a sum considerably less than the annual sum paid by us to the Sultan on account of Cyprus (which is at present hypothecated to the service of the Ottoman Debt).

20. There is, however, no reason to doubt that certain portions of the line would pay their way (in conjunction with the kilometre guarantee) very shortly.

As mentioned above, it is a fact that the revenues of the provinces served by the Anatolian and other railways in Asia Minor have increased considerably, and an export of corn to the value of 2,000,000, has grown up from nothing in the last few years. As regards Mesopotamia, it is common knowledge that in ancient times this part of the country was peopled and productive. Without implicitly accepting

† For 1902-1903 the working expenses averaged, for all the Anatolian Railway, 248, per mile: and the traffic receipts, 605, per mile.

Dr. Kohnke's records of an annual output of 10,000,000 tons of corn in the sixth century A.D., and of a population of 8,000,000 souls 300 years later, and without basing too much on Sir W. Willcocks' forecasts of immense future developments, we may safely assume that the lower valleys of the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount.

The country between Aleppo and Mosul, and even as far south as Tekrit, is sufficiently watered by the rainfall—but below that point irrigation becomes a necessity. It is to be noted that the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount.

To estimate the amount needed, the work to be done, and the time and rates of return, could only be done by disinterested experts, and even then to a great extent must be conjecture.

It would be safer and more economical in every way only to undertake such works when the line was well advanced, and when every opportunity had been taken for studying the question in all its aspects.

In population in some of these regions is extremely sparse, in parts only six or seven persons to the square mile. It is to be noted that the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount.

21. It is to be noted that the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount. The remaining prospects appear to promise us commercial advantages. The more proximate of these advantages are of a negative order, i.e., the avoidance of the loss of our trade as against the Germans, and the maintenance of our position as carriers on the Tigris. But in the future, and in return for the investment of capital, there are possibilities which may reasonably be considered as very great.

22. It accordingly seems clear that, under the circumstances, and considering especially the present position of the Germans at Constantinople and of their railway in Anatolia, the British Government should be prepared to participate with them if we can secure sufficiently favourable terms.

23. The final point for consideration is, therefore, what are the sufficiently favourable terms.

24. It is presumed that a condition to negotiation is that we should be given, in so far as we participate, as controlling a position as that of the Germans. This was the condition which the British Government insisted on in the case of the Bagdad Railway. It is to be noted that the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount.

25. The final point for consideration is, therefore, what are the sufficiently favourable terms.

26. The conditions which Sir G. Clarke lays down as necessary to British interests are:—

- (1) The construction of the Bagdad-Persian Gulf section of the line, together with the contemplated branch from Bagdad to the Persian frontier, by British capital and British management.
- (2) The retention of this section under British management.
- (3) Pooling the general traffic under a working arrangement, giving Great Britain, adequately, the right of transit for British goods.

27. But it is no less necessary that we should keep the waterways as well as the railways. It is to be noted that the Tigris and Euphrates are quite capable, if properly irrigated, of exporting cereals to a large amount. The remaining prospects appear to promise us commercial advantages. The more proximate of these advantages are of a negative order, i.e., the avoidance of the loss of our trade as against the Germans, and the maintenance of our position as carriers on the Tigris. But in the future, and in return for the investment of capital, there are possibilities which may reasonably be considered as very great.

* This question is examined in detail by Willcocks and touched on by Kohnke. Appendix (A) gives a short summary of Willcocks' principal statistics.

† Down-stream rates (Bagdad to Basorah), are as low as 1s. 6d. a ton in winter months.

a similar advantage being denied to us, our position, even if it included the entire control of the midway and a share of the navigation of the river below Bagdad, might become quite ineffective.

28. There will in any case have to be a considerable reduction of freights on the river (they reach at present as high as 37s. a ton up and 22s. down, the up and down average on all steamers being about 24s.). This, of course, means smaller profits. Under these circumstances there seems to be no reason why we should not negotiate, through Messrs. Lynch or directly, to take over the Sultan's service or to work it for him on an arrangement, receiving a promise in return for protection from future competition. This should also apply to any future navigation that might be undertaken on the Lower Euphrates.

29. A further condition, or one subsidiary to Sir G. Clarke's (3) should preclude the imposition of differential rates of any kind against British goods, either in transit or otherwise, and whether by any transport or storing agency or, in possible eventualities, by the Customs.

30. To obtain these conditions we might as a first proposal offer to construct with British capital the Bagdad-Persian Gulf section—the line to be always and entirely British, the waterways monopoly or something akin to it, and all the subsidiary rights of the concessionaire as to factories, warehouses, &c., alluded to above, being granted to us in return. Article XXIX of the Convention would also have to be so modified as to give us the right of working this section as soon as it was completed.

This portion of the line is roughly about 440 miles long, and at 7,000l. a mile (some embankments would be needed which might involve a little expense) should bring the cost to 3,080,000l. That is to say, we should be building about one-third of the total line at one-fifth of the total cost. We could adduce as a further argument the large sums we should eventually have to spend in irrigation. 1,600,000l., according to Dr. Rohrbach, would do a great deal as a first instalment.

31. It is doubtful, however, whether the Germans would accept such terms. If they refused we might as a second proposal supplement the above by offering in addition to build the line between Bagdad and Mosul which should cost another 2,000,000l. This would mean that we were building half the entire line at about one-third of the entire cost. We should again have to insist on the control of the waterway, but might, if pressed, waive the exclusive British control for the Mosul-Bagdad portion of the railroad.

32. We could at the same time agree to the Anatolian Railway becoming an exclusively German line, in the same way that the Bagdad-Persian Gulf section became exclusively British—though this seems rather like offering to give the Germans something which belongs to the Sultan, over which even in theory we have no power, and which they already possess in fact.

33. If none of these terms were sufficiently tempting to the Germans we might, if the financial houses concerned were inclined to do so, go as far as offering to provide a loan of 7,500,000l. of which the 5,000,000l. mentioned above would build the Mosul-Persian Gulf section, to be under exclusively British control, while the remainder would go towards the construction of the rest of the line—the control of the waterways and the various contingent rights on our sections remaining as before in our hands. Lord Revelstoke, Sir O. Dawkins, and Sir R. Cassel, from their correspondence with Lord Lansdowne in 1903, evidently contemplated floating a loan of this magnitude under certain eventualities, and if the terms met with the approval of His Majesty's Government.

34. It will thus be seen that great importance is attached: (1) to the extreme easterly portion of the line; and (2) to the navigation rights on the Tigris (and also on the Euphrates) being in British hands. No modification of these two conditions could be made without the danger of eventually converting us into mere shareholders in an ordinary German financial undertaking. The political and commercial advantages might then become quite out of proportion to the amount of capital involved, and might conceivably be found to be entirely illusory.

35. Should third parties, the French, Swiss or others be introduced, and especially the Turkish Government, the Deutsche Bank, &c., the greatest circumspection would be necessary to insure no possible combination which might be to our detriment—but in any case matters should be so arranged that the Bagdad-Persian Gulf section should remain in our exclusive control.

36. The suggestion of our interesting ourselves as far north as Mosul is, it is believed, new. In its favour there is the fact that most of the country north of Bagdad (of Tekrit actually) is watered by rainfall and does not need irrigation,

that there appears no reason why the Tigris should not be made navigable from Mosul southwards (the current is the only difficulty and it is not to be compared in rapidity with the Upper Yang-tze), and that the Arab population is practically homogeneous with that below Bagdad. It would also obviate any danger of competition between rail and water transport as both would be in our hands. Somewhat similar conditions prevail in Borneo where the Irrawaddy River and the Hanioo Railway run side by side, and it is understood that the natives in the whole prefer the former means of forwarding goods not because of cheaper rates but because of the corruption almost invariably incident to Oriental railway systems.

37. Nothing has been said of the Bagdad-Karbala branch (100 miles). In the opinion of the present writer who has travelled over the road most of it is of little use unless it is to connect with a through line by Hamama, to Feha, which under the present circumstances appears only more likely. The country through which it passes is very fertile and irrigated, the villages are few and well-to-do and look well in any case, but it is broken at the frontier station when mule or camel transport would be resorted to. Were it built, however, its total cost should not exceed 6,000,000l. say 600,000l. a mile.

38. As regards Mosul Bagdad Karbala and Bussora, the former of course through which the line runs would be the Persian Gulf would pass, they contain a population between them of 500,000 souls. There is no doubt that in the neighbourhood of the mouth of the two rivers there is much oil and coal, and the date and other products at present of considerable size is certainly capable of great expansion. The Bagdad-Karbala branch is of course a very important one, but even after existing facilities with better transport facilities the line would almost necessarily become much more remunerative than it is at present. (Cf. paragraph 7.) Bagdad is a large market and the chief trade centre of this part of Western Asia and at Bussora there are many ways three to four months arrears of cargo waiting to go up the river. Labour, though scarce, is not dear, while the half-secularised and nomadic population of the valleys is of a type that soon becomes amenable to civilization. Although the country is not fitted for European colonization which under the present Sultan would never allow though the suggested Suez Canal project is as yet far from being carried out, there is no reason why the Bagdad-Karbala branch should not be introduced as beneficial to Mesopotamia as it has been to Zor, Syria, and the Hamran.

39. Summarizing the above arguments, the following are the conclusions arrived at:—

- That the Germans are determined to build the Bagdad line somehow, and that it appears reasonably probable that they may succeed in doing so without our participation.
- That if it is built without our participation our general position in this part of Western Asia will be worse than it is now.
- That we are not likely to get a better opportunity for negotiation than the present.
- That we should therefore participate if the Germans will admit us, and if we can secure for ourselves the Bagdad-Persian Gulf section, the navigation of the Lower Tigris and Euphrates to at least.

(E. App.

(E.), pp. 72-80.

(F.), p. 5.

(A.), p. 34.

40. Subjoined are a few statistics which may be of use for reference:—

	Distance.	Estimate.
Total length of line—	Miles	£
Kenia to Persian Gulf, about ..	1,250	
Mosul	570	
Bagdad	440	
Total distance by River Tigris—		
Mosul to Persian Gulf	870	
Bagdad to Persian Gulf	50	
Total cost of total line (construction), estimated ..		15,000,000
Total actual cost of Kenia-Begla section, per mile ..		6,000
Traffic receipts, Amman Railway, 1902-1903, average, per mile ..		60
Working expenses, Amman Railway, 1902-1903, average, per mile ..		340
Guarantee (construction), Bagdad Railway, per mile ..		10
Guarantee (working expenses), Bagdad Railway, per mile ..		10

The most useful map is in Rehrbach's "Bagdadbahn" (attached).

(Signed) CLIVE HIGHAM, Captain.

June 1, 1905.

P.S.—It has been suggested that the Germans may only build their railway as far as Bagdad, or at some other point higher up the Tigris, and make use of the river as a means of transport for the remainder of the way to the Persian Gulf.

In such a case the general position would appear to be more favourable to us than an all-German line of railway to the sea would be, but less favourable than if we had our own Bagdad-Persian Gulf section.

The keynote of our military objections to an all-German line is that we are opposed to the establishment of any line to the shores of the Persian Gulf. It is clear that if the Germans finished at Bagdad they would not be at Umkarr or Kuwait—though they might eventually get there. It may therefore be assumed that a German terminus at Bagdad would strategically be rather less damaging to our interests than one on the Persian Gulf. From the political point of view the situation would be modified in a somewhat similar degree. The Coast and Desert Arabs and the Mahommedan pilgrims would not see and hear quite so much of the Germans if limited to Bagdad as they would if Kerbela and Bassorah were on a German railway.

Commercially the outlook is less certain. At first it would appear that Messrs. Ley and the Sultan would be able to control all the river traffic. But the Germans have already secured in the Convention the grant of a right of way, and in the Tigris section they have secured a monopoly. It is highly probable that they will be able to guarantee themselves a monopoly from the effects of a British or Turkish traffic monopoly. Once they had effected this and had their own boats running, loading and unloading at their own quays, and connecting with their own railway, our prospects would not look very encouraging.

It is, however, by no means certain that all the German objects would be achieved by a line that ended at Bagdad.

As has been suggested before, there are probably both military and political ambitions in their project, and neither of these would be adequately remunerated if the railway stopped short at an inland town. There would be far less chance of a German port on the Persian Gulf, of German liners calling there, or of predominant German influence on the waste lands of Arabia.

But would they be so well off commercially? It is very doubtful. They would be sacrificing the future profits ensuing from the development of part of the basin of the Tigris and Euphrates. If they were to carry their freight there they would not be in direct communication with the sea or with the large cities of Kerbela and Bassorah.

They would also have to bring considerable influence to bear on the Sultan of the day, who might not be His present Majesty, to so modify their concession as to give

them navigation rights on the Tigris below their railway line—for otherwise they would be at the mercy of the present controllers of the river traffic—and they would have to pay a heavy toll for the use of the river.

It appears more likely, therefore, that they will go through with the project, though if they ended at Bagdad it seems that British interests would suffer less than if they continued to the Persian Gulf.

C. B.

Minutes.

By Sir F. Hopwood

See my private note herewith. If you approve, I propose to send them to Mr. Sanderson, who will no doubt show them to Lord Salisbury. Mr. Lewis Smith and I have discussed the matter with Sir Thomas.

(Initialled) F. J. H.

June 19, 1905.

By Lord Salisbury

These papers are very interesting. They may go forward to Sir T. Sanderson, I am reserving any comments which they suggest till I am able to refer to the papers upon which they are founded.

(Initialled) S.

June 22, 1905.

No. 9.

Mr. Whitehead to the Marquess of Lansdowne.—(Received July 8.)

(No. 180)

My Lord,

Berlin, July 5, 1905.

WITH reference to your letter of the 2nd inst. N. 175 of the 2nd inst. I have the pleasure to inform you that the German Government have expressed a desire to see the German Government of the Mesopotamia upon the interests of the Bagdad Railway.

I have, &c.

(Signed) J. B. WHITEHEAD.

Enclosure No. 9.

Extract from the "Tagliche Rundschau" of July 3, 1905.

(Translation.)

NEW DIFFICULTIES FOR THE BAGDAD RAILWAY UNDERTAKING.—Next to the question of the Bagdad Railway the most important question of the German Government is the question of the Bagdad Railway. The German Government have expressed a desire to see the German Government of the Mesopotamia upon the interests of the Bagdad Railway. The German Government have expressed a desire to see the German Government of the Mesopotamia upon the interests of the Bagdad Railway. The German Government have expressed a desire to see the German Government of the Mesopotamia upon the interests of the Bagdad Railway.

foundation for such fears. Sir William is, doubtless, an able and energetic man, who has done excellent work in Egypt in the matter of irrigation, and who will try to realize his project with great perseverance.

It must not be forgotten, however, that in the Valley of the Nile he was dealing with a country in which peace and order were guaranteed by the British Administration, whereas no such guarantee for their maintenance exists in the Turkish provinces on the Persian Gulf.

Fertile though these districts once were, they are now practically a desert, and are so much impoverished that it is scarcely at all where the land is fertile. It, therefore, seems to be almost out of the question that Sir W. Willcocks' scheme should be taken in hand before the Bagdad Railway, a valid Concession for the continuation of which to the shores of the Persian Gulf is held by the Anatolian Railway Company. This is a project in which German capital participates in a predominating degree, forms as it were the presupposition for the execution of the British project. There is no confirmation of the rumour that the Sublime Porte has already granted a Concession for the latter, and although negotiations on the subject have been going on for more than two years, the day is still far off when a Firman will be obtained. It is a matter of common experience that agreements with the Turkish Government for economic undertakings require years of negotiation and hard work, and it is not probable that a Concession will be obtained in this case before the Bagdad Railway has been completed, especially as it is not consonant with the principles upon which the Sultan has hitherto invariably acted, to allow undertakings to be started in districts which cannot be easily reached and controlled from Constantinople.

If, however, Sir W. Willcocks' scheme is some day really carried out, this could only be a source of satisfaction to the Bagdad Railway Company, who would thereby gain passengers and freights. The common interests of the international groups of capitalists who carry on the construction and the completion work are so obvious that it will, doubtless, be possible, at the proper moment, to arrive at an understanding. The endeavours of Germany are not directed, either in Turkey or elsewhere, towards the exclusion of the well-founded economic interests of other nations, nor does she desire to close the doors, which she wishes opened for herself, against the British or any other of her neighbours.

No. 13.

Sir N. O'Connor to the Marquess of Londonderry.—(Received July 24.)

(No. 490.)

My Lord,

Therapia, July 17, 1905.

WITH reference to my despatch No. 304 of the 6th ultimo, inclosing copy of a Report by the Military Attaché to His Majesty's Embassy on the completion of the Bagdad Railway, I have the pleasure to inclose herewith a copy of the annual Report and financial Statement of the Société Ottomane du Chemin de Fer de Bagdad for the year ending the 31st December 1904,* which has recently been published by the Administration of that Company.

I also inclose a Memorandum by Mr. Weekley, giving a summary of the Report, which will be read with interest.

I have, &c.
(Signed) N. B. O'CONNOR.

Inclosure in No. 13.

Memorandum by Mr. Weekley.

I HAVE the honour to inclose herewith a copy of the annual Report and financial Statement of the Société Impériale Ottomane du Chemin de Fer de Bagdad for the year ending the 31st December, 1904,* which has been recently published by that Administration.

* Not printed.

The building of the first 200-kilom. section of this line, from Konia to Bozüyük, was finished in October 1904, and the line was officially thrown open to traffic.

It has not been considered advisable at present to create a separate Administration for the short length of line, to create a separate Administration for the railway, and it has been found more advantageous to conclude arrangements with the Anatolian Railway Company for the administration of this section. The arrangements which have been made with this Company will expire on the 31st December, 1907, but they will continue to be in operation every year after that date, and will cease one year after the date on which notification may have been made by either side of the

in the financial Statement is the sum which has been expended on the line of 200 kilom., and which amounts to 48,834,681 fr. 91 c., or 1,087 fr. 57 c. per kilom., or about 14,000 fr. per mile. Article XXX of the Convention, which provides for the financial arrangements concluded between the Imperial Government and the Company, provides that the cost of construction of the first section is well within the limits of the amount specified in the Convention.

The rolling-stock of the railway is valued at 771,637 fr. 45 c., or 30,864 fr., and the following new material was ordered during the year:—

10 locomotives with tenders, 12 passenger carriages, 2 Post Office vans, 4 ordinary vans, 1 restaurant car, 171 freight waggons, and 2 snow ploughs.

The gross traffic receipts derived from the working of the line from the day it was first opened to traffic, i.e., the 25th October, 1904, to the 31st December of the same year, amounted to 69,417 fr. 23 c., which is equivalent to a gross annual return of 1,868 fr. 14 c. per kilometre.

Calculations of Article XXXV of the Convention the Company receives from the Turkish Government, in order to defray the working expenses of the line. The Company has therefore received a sum of 59 fr. 95 c. from the Imperial Government, which, added to the receipts, represents the total amount due for working expenses for the period as from the 25th October to the 31st December, 1904. The actual working expenses of the line which have been paid to the Anatolian Railway Administration under agreement for the sixty-eight days of the year (the 25th October to the 31st December, 1904), found to be 40,503 fr. 4 c., that is, at the rate of about 1,087 fr. per kilometre and per annum.

Administrative expenses figure at 18,000 fr. 91 c., or about 485 fr. 57 c. per annum.

The net profits for the year, which are almost entirely derived from interest, amount to the sum of 783,117 fr. 84 c., and are to be distributed in the following manner:

	Profits.	200,000
To the "Fonds de Prévoyance"	200,000
10 per cent. to Reserve Fund	78,311 84
5 per cent. on paid-up share capital	57,000 00
10 per cent. to Administration	10,000 00
Balance to new account	94,806 16
		94,806 16

Constantinople, July 11, 1905.

No. 14.

Memorandum by Sir T. Sanderson.

(Confidential.)

MR. BARRY, Director of the London Branch of the Imperial Ottoman Bank, called this afternoon and told me that the Paris branch of the Bank had again been approached by an agent of Dr. Gwinner on the subject of the Bagdad Railway. The statement made by Dr. Gwinner's agent appears to have been that the participation

of British capital in the Railway had already been decided upon in principle by means of communications with Sir Nicholas O'Connor, that the construction of the Bagdad-Bussorah section of the line was to be assigned to the British group, that Lord Lansdowne had had a conversation with M. Cambon on the subject, and that in view of the present *entente* between the two countries the French Government were ready to consent to this and to the participation of French capital, that the joint share of England and France was to be equal to that assigned to Germany and other countries—Austria-Hungary, Italy, &c., that Messrs. Speyer and Co., of London, were to be charged with the formation of the English group, and that Dr Gwinner hoped that the Imperial Ottoman Bank at Paris would head the French group.

Mr. Barry's object in calling was to ascertain what foundation there was for all these statements and to suggest that the Ottoman Bank in London was better fitted to head the British group than Messrs. Speyer.

I thanked Mr. Barry and told him that the statement went far beyond anything that was known to me. There had been indications at Constantinople that the Germans were again desirous of interesting British capital in the Railway, and might not be unwilling to leave to the British group the Bagdad-Bussorah section of the line. Lord Lansdowne had told Sir N. O'Connor that he should be glad to know how far this was the case, and what terms the German group were likely to offer or accept. He had also mentioned the matter in a general way some days ago to M. Cambon, who was entirely without instructions and seemed rather doubtful what view would be taken by his Government of any special arrangement with regard to the Bagdad-Bussorah section. He had not heard Messrs. Speyer's name mentioned in connection with the matter.

I told Mr. Barry that I mentioned all this to him in confidence, and I should be greatly obliged if he would let me know of any further developments.

T. H. S.

Foreign Office, July 28, 1905.

Dr. Gwinner and his friends are apparently well provided with information, which loses nothing in transmission to them. But the whole story suggests that the German group are very anxious for our support.

L.

Foreign Office, July 28, 1905.

No. 16

The Marquess of Lansdowne to Sir N. O'Connor.

(No. 143.)

(Telegraphic) P.

Foreign Office, July 29, 1905.

I should be glad to know whether you have had any communications with the German group, and with what result.

We have been informed confidentially by the Manager of the London Branch of the Imperial Ottoman Bank, that an agent of the Deutsche Bank has approached their Paris office on the subject of British and French participation in the Bagdad Railway. The agent stated that Great Britain and France would be offered jointly a share equal to that of Germany and other countries, and he appeared to consider it certain that the British and French Governments would be favourably disposed.

Messrs. Speyer, of London, were mentioned as the firm by whom the English group would be started.

We have had no communications here or at Berlin with the Deutsche Bank, and the above information goes beyond the facts as known to us. When I mentioned the subject to the French Ambassador a few days ago, he said he had no instructions, but seemed, personally, unfavourable to assigning to the British group the Bagdad-Bussorah section of the line.

No. 16

Sir N. O'Connor to the Marquess of Lansdowne.—(Received July 31.)

(No. 110)

(Telegraphic) P.

Constantinople, July 31, 1905.

BAGDAD Railway. I have just seen No. 113 of the *Telegraph*.
In my private letter of the 12th instant I reported the substance of my conversation with Dr. Zander. Since then, for myself, I express the hope that an understanding would eventually be arrived at, and dwell on the advantage to be gained from some form of private exchange of views in order to discover the matters at issue.

Possibly Dr. Zander attached undue importance or exaggerated my remarks. I feel I was not in touch with the present position. Mr. Huguenin of the Anatolian Railway Company, M. Huguenin—during which I observed that I had always favoured participation by Great Britain.

Having this I have had a conversation with one of the German group. I am of opinion that it is very desirable to keep the door open, without pledging us officially, however, in any way.

As far as the French Ambassador's view is concerned, would not the French Syrian Railway and a British Bagdad-Bussorah section be considered as a set-off the one against the other?

No. 17

The Marquess of Lansdowne to Sir N. O'Connor.

(No. 144.)

(Telegraphic) P.

Foreign Office, August 1, 1905.

HIS Majesty's Government consider that the best solution would be to inter-States, France, and Great Britain were admitted to equal participation with Germany, we should be ready to discuss it.

No. 18

Sir G. Clarke to Foreign Office.—(Received August 4.)

Committee of Imperial Defence, 2, Whitehall Gardens.

August 4, 1905.

My dear Sir Thomas,

I VENTURE to send you a note on the present position as regards the Bagdad Railway, as proposed by the German group.

I do not know whether anything is now possible, but the Germans may perhaps be more anxious than they were some time ago to reach a settlement.

Believe me, &c.
(Signed) G. S. CLARKE

Inclosure in No. 18.

Memorandum respecting the Bagdad Railway.

The Situation on July 31, 1905, and Suggestions for an Arrangement.

AS was expected, the Germans appear to be increasingly anxious to secure British cooperation in the Bagdad Railway. If the German group in the present state of affairs are correct (see Foreign Office Paper, section 1, 24th July, 1905), the cause of the German group is evident.

[1008]

H

2. The sum available for the construction of the Konieh-Eregli section under the kilometric guarantee was 34,000,000 fr. Of this sum, 48,834,881 fr have apparently been expended on construction and 771,637 fr. on rolling-stock (total, 49,606,518 fr.), so that but a small sum is left available to supplement the guarantee on the more difficult section of the line which must now be undertaken.

The kilometric guarantee of 11 000 fr., when capitalized at 4 per cent., is sufficient to cover the cost of construction at the rate of 17 000 fr. per mile.

3. If it is true that 15,700 fr. per mile has been expended on the construction of the Konieh-Eregli section, it is highly probable that the next two sections, which involve the crossing of the Taurus range, will cost nearly double that sum. Sir N. O'Connor, on the 6th June, reported that the estimated cost of these sections was for a considerable distance at the rate of 23,000 fr. per mile. Thus for many miles there will be an expenditure of about 10,000 fr. per mile not covered by the kilometric guarantee.

4. It is noteworthy that the cost of construction of the line, according to the official statement, has been considerably greater than has been reported from other sources.

Thus Sir N. O'Connor reported in June that only half the sum provided (34,000,000 fr.) has been expended on the line (i.e., about 5,700 fr. per mile).

He further stated that about 500 000 fr. has been distributed among the bankers and others who participated in the scheme.

Dr. Zander (Director-General of the Anatolian Railway) is reported to have stated last April that the cost per kilometre was less than 5,000 fr. (about 8,000 fr. per mile), and that the balance of 34,000,000 fr. "went in expenses, including money spent on Turkish officials."

5. These figures are not necessarily inconsistent with the official financial statement, as money distributed among the bankers and others could not be shown in the accounts otherwise than as expenditure on the construction of the line.

6. As railways in India cost about 12,000 fr. per mile, including equipment and rolling-stock, it is probable that the above figures (8,000 fr. or 8,700 fr. per mile) are substantially correct.

7. The point is important, for if the kilometric guarantee suffices only to cover the cost of construction of the section of the line which is the cheapest and easiest, not only by reason of its physical conformation, but also on account of the favourable climate and of the ample supply of local labour, then it is clear there will be a large deficit on the more difficult sections, and the deficiency may be so great as to prevent the further extension of the line.

8. If, however, the actual expenditure on the Konieh-Eregli section amounts to only 5,000 fr. per mile, then the guarantee, at the capitalized rate of 17,000 fr. per mile, would probably suffice if the surplus on the easy sections were used to make good the deficit on the more difficult portions of the line.

9. The Directors of the Bagdad Railway Company seem to be in a difficult position. If the cost of construction of the Konieh-Eregli section as shown in the financial statement is correct, investors will be chary of advancing money for the more difficult sections which must now be undertaken. If, on the other hand, the actual expenditure on this section is as reported by Sir N. O'Connor, the Directors cannot make known the true position without publicly divulging the fact that about 500 000 fr. of the Company's money has been irregularly divided among the bankers and others who participated in the scheme.

10. If the construction of the line is proceeded with, our object must be to secure the control of the Bussorah-Bagdad section.

11. It seems possible that Germany might be induced to yield that condition if we met her in other directions.

12. Mr. Cambon, in a recent conversation with Lord Lansdowne, expressed the opinion that the French Government would not favour this proposal; but it is doubtful whether the French Government has given full consideration to the subject.

13. At present Germany has complete control over the Anatolian Railway; and France has a monopoly of railway construction in Syria as far south as Mezzeb.

14. British control of the Bussorah-Bagdad section might fairly be regarded as a legitimate counterpoise to the French and German railways in Syria and Asia Minor respectively.

15. In view of our present cordial relations with the French Government it seems probable that, if representations were made, no opposition would be offered to the proposal that we should control this section of the line, more particularly as we should undertake not to establish differential tariffs in our own favour.

16. It is clear from the former negotiations that the German Government is strongly averse from the internationalization of the Anatolian Railway. We might without serious disadvantage consent to the Anatolian Railway remaining under German control, provided that we were given control of the Bussorah-Bagdad section, and that the 10 per cent. participation and share in the directorate by the Anatolian Railway of the Bagdad Railway previously stipulated for were withdrawn.

17. France, Germany, England, and the minor Powers might then combine to participate in the construction, on an international basis, of that part of the Bagdad Railway which lies between Konieh and Bagdad (about 900 miles), together with any branches that might be constructed between these two points, such as those to Alexandretta and Aleppo.

18. The Board of the international section might be composed in the following proportion:—

Country.	Percentage.
France	33
Germany	33
England	33
Minor Powers	1

Or, if there is any possibility of inducing the United States to participate, the proportion might be:—

Country.	Percentage.
France	25
Germany	25
England	25
United States	25

19. Provision would have to be made to secure to participants proportionate shares in the provision of railway material for the international proportion of the line. It would further be desirable that arrangements should be made to pool the receipts of French, English, and International Companies, and that a mutual fund could be given by all the Companies that they will not establish discriminating tariffs in favour of or against the trade of individual nations.

20. Such arrangements would concede to the Germans a point which they were clearly unwilling to yield in the former negotiations; and, provided that access to Alexandretta by the international line is assured, the Germans, even if they evaded the Agreement by granting rebates on the Anatolian Railway to German traders, would not be able to injure our trade on any section of the line to Konieh, as goods arriving via the Mediterranean would be sent to Konieh as cheaply by Alexandretta as by Haider Pasha.

21. An arrangement of the nature described above would require the establishment of a clearing house charged with the duty of apportioning receipts and expenditure on through traffic. The management of the clearing-house would be in the hands of a Mixed Committee of the several Boards.

22. If the entire system could be placed under *bona fide* international control, British interests would be adequately safeguarded, but the difficulties appear insuperable. It is extremely unlikely that the Germans would consent to internationalize the Anatolian Railway, while the French would probably object strongly to a similar arrangement in regard to the Syrian lines.

23. It is clear that the arrangement above suggested is not a practical one at the present time, and it might be desirable to sound the French Government on the subject.

24 The following is a summary of the proposals:—

- (a.) Germany to retain control and management of the Anatolian Railway
- (b.) France to retain control and management of the Syrian railways
- (c.) Great Britain to construct, control, and manage the Bagdad Gulf section.
- (d.) The intervening section, with branches and connections, to be internationalized.
- (e.) The international section to be controlled by a Board on which the Great Powers are equally represented
- (f.) Materials for the international section to be provided by the Powers in proportion to their financial participation.
- (g.) The Powers to undertake not to impose differential rates on the sections they severally control.
- (h.) The receipts on the entire system to be pooled and distributed by a clearing house managed by a Committee from the several Boards.

(Signed) G. S. CLARKE

August 4, 1903.

No. 19.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received August 28.)

(No. 570.)

My Lord,

Therapia, August 21, 1903.

WITH reference to my despatch No. 486 of the 17th ultimo, I have the honour to inclose herewith an extract from the "Moniteur Oriental" of the 15th instant giving some further particulars as to the working of the recently-completed section of the Bagdad Railway from Konia to Eregh and Boulgourlou, which have been published in the Journal of the French Chamber of Commerce.

I have, &c.
(Signed) N. B. O'CONNOR

Inclosure in No. 19

Extract from the "Moniteur Oriental" of August 15, 1903.

CHIFFRE DE PER DE BAGDAD

NOUS avons déjà parlé succinctement des résultats du second exercice (1901). Aujourd'hui, le "Journal de la Chambre de Commerce Française" donne les renseignements complémentaires suivants sur le premier tronçon de 200 kilom. Konia-Eregh-Boulgourlou.

Les recettes brutes effectuées du 25 Octobre au 31 Décembre ont produits:

	Pr	c
Voyageurs	28,61	18
Marchandises	5,74	18
Marchandises (1 tonne, dont 3,650 de céréales)		
Total	34,35	36

Le produit kilométrique a atteint 1,868 fr. 14 c., et le Gouvernement a compli la garantie en versant 97 350 fr. 96 c.

Les trains ont parcouru 28,150 kilom.

Durant l'année 1903 le matériel suivant a été commandé: 10 locomotives, 12 voitures à voyageurs, 6 fourgons, 1 voiture-restaurant, 171 wagons à marchandises et charrettes à neige. La plus grande partie de ce matériel a été livrée.

Les bénéfices nets ont atteint 783,117 fr. 94 c. qui ont été répartis comme suit:—

Fonds de prévoyance à la disposition du Conseil d'Administration	
Reserve statutaire	37,500 00
5 pour cent d'intérêts sur le capital-actions versé	1,640 60
Total égal	39,140 60

Le Conseil d'Administration se compose de vingt-sept membres. Il est présidé par M. J. Delfès, Directeur-Général de la Bank Im Parmi les autres membres du Conseil, notons les Français et Suisses protégés Constantinople; Gaston Aboynou, L. Ch Paris.

No. 20

Sir N. O'Connor to the Marquess of Lansdowne.—(Received August 28.)

(No. 572)

My Lord,

Therapia, August 20, 1903.

I HAVE the honour to inclose herewith a Memorandum prepared by Mr Mark Sykes, recording some of the phases of the negotiations respecting the Bagdad Railway.

My views on the general question were so fully explained in my despatch to your subject again, or to put forward in detail the reasons that have induced me to favour the participation of England in this important enterprise.

It has been my view that the railway will eventually be constructed, even in the definite shape, and is fraught with such immense political and commercial consequences and advantages will not be allowed to drop easily whatever may be our decision, though no doubt we can impede or advance its development.

It has been my view that the railway will eventually be constructed, even in the definite shape, and is fraught with such immense political and commercial consequences and advantages will not be allowed to drop easily whatever may be our decision, though no doubt we can impede or advance its development.

It may not be without interest to state that the Konia-Eregh section was built the Bagdad Railway Loan (first series). This surplus is being reserved for the purpose of constructing the next section of the line, which will require a capital of £1,200,000. The company will therefore be obliged to raise £1,200,000 before commencing active construction.

Surplus of the revenues assigned to the Fisheries Loan and other revenues still at the disposal of the Turkish Government would be

Taking these facts into consideration, it may be easily conceived that the work very distant date, and I would lay stress on the fact that that if the Germans overcome the difficulties of the Taurus Mountains unaided, they will be within reach of the rich tracts of Mesopotamia, where the obstacles to and the prospects of success more inviting.

I have, &c.
(Signed) N. B. O'CONNOR

Inclosure in No. 20.

Memorandum containing a Brief Account of the Negotiations relating to the Bagdad Railway, 1898-1902

DURING the German Emperor's visit in 1898, the proposal to construct a line from Constantinople to Bagdad came into notice, with several other suggestions for German enterprise, which excited some attention at the time, but were not taken very seriously.

However, in 1899 the German Government and German business men attempting to obtain a Concession for the construction of a railway from Amathin to the Persian Gulf, but there was much obstruction on the part of the Turkish authorities, and in November Sir N. O'Connor reported that the Turkish Government was anxious to place the line in German hands.

However the Germans, by special favour of the Sultan, and a lavish expenditure of money at the Palace (generally computed at 200,000/), obtained an *ikhtisari*, a concession which was, in principle, what they sought, but however, left all details to be settled at some future date.

On December, 1899, an Agreement between the Turkish Minister of Commerce and Dr. Siemens was signed, giving the latter permission to proceed with the line to Bagdad. All questions of guarantee and the like were deferred until the Agreement had been made by a Commission, which was dispatched by the Germans to examine minutely the whole of the country traversed by the proposed railway.

Referring to the above Agreement, Dr. Siemens told Sir N. O'Connor that the original initiative had been taken by the Sultan himself, who had asked whether he was willing to construct the line.

After mature consideration, Dr. Siemens decided to enlist, if possible, British capitalists in the scheme, however, he first ascertained from the Berlin Foreign Office that there was no objection, on the part of the German Government, to British participation in the venture.

On the strength of this, Dr. Siemens made overtures to the Anatolian Company, which, however, were rejected. He then applied to the Baghdad Railway Company, although he preferred British co-operation, but they had not quite abandoned the hope of obtaining British assistance.

On the 15th April, Sir N. O'Connor, in the course of an interview with the Minister of Commerce, was informed that a rumour had come to his Excellency's notice that the German Government did not wish to

still they were desirous of maintaining the *status quo*, and could not give any indication any action which would alter it or give another Power rights or privilege over territory belonging to the Sheikh of Kuwait.

Some afternoon his Excellency saw the German Ambassador, who, without doubt should remain in his mind, explained to him very explicitly the official view of Kuwait, making it quite clear that the Sheikh was not at liberty to encroach or otherwise alienate to the Railway Company either the harbour of Kathama or any part of his territory, without the consent of the Government.

His Excellency also said that he was anxious that nothing should take place which would deter British capitalists from taking part in the scheme, provided of course they obtained fair terms. In the course of further conversation, the Baron von Marschall expressed the hope that the British and German Governments would stand mutually beneficial.

The Exploring Commission sent by the Germans completed its researches in 1900, and in June 1901 matters began to take definite shape. The French and German capitalists negotiated among themselves, and after some difficulty came to an agreement that France and Germany should participate equally in the project, each contributing 50 per cent of the capital.

In the year 1901 in August, Lord Lansdowne, in a despatch No. 753 of the 14th August 1901, informed Sir P. Curzon that Count Metternich had called at the Foreign Office, where his Lordship had to him the substance of this information, without, however, referring to participation by British capitalists.

This agreement was kept secret at the time, and our first definite information on the subject was obtained by Sir N. O'Connor from M. Constant, his French colleague, in March 1902.

British capitalists were not actually approached, and Sir N. R. O'Connor was of opinion that they would not take up the matter unless they received some encouragement from official quarters. He suggested to Mr. Robinson-Smith that he should communicate with Sir Clinton Dawkins on the subject.

This was the first time that the scheme was brought to the notice of British

on the 11th January, 1902, an *ikhtisari* was granted sanctioning its issue.

On the 21st this Convention was signed by Zildir Bey for the Turkish part, and Dr. Zander and M. Huguin on the other; the Convention had, however, been subject to considerable and important modifications, the most important of which are as follows:

Article I. Line to be constructed at Zaidar and Bussorah instead of Kowloon and Kiangnan, the right being reserved by the Company to prolong to an unstarred point on the Persian Gulf.

Article IV. Time for completion of the whole line from Kowloon to Bussorah reduced from twelve to eight years.

Article VIII. Transfer of the line to another Company.

Article IX. Rights of navigation of the Tigris and Euphrates reduced to rights of navigation and of construction only.

Anatolian Company to have all rights of linking any points of the sea coast between Mersina and Tripoli with the main line, if the Government approves.

Article XXII. Monopoly of mines struck out. Mines along the line are open to the public, but the Company still maintains the semblance of a preferential right, which would probably frighten away other speculators.

Article XXXV. Annuity to be paid by Government to the Company, 1,000 fr. per kilometre of road open to traffic, also 4,500 fr. per kilometre for working expenses of traffic.

Article XXXVI. Revenues for this purpose not designated in the Convention, but referred to in Annex.

Article XXXVIII. Branch line to Kharput and Harbekir.

Article XL. Temporary line between Hamidieh and Kantambol.

Two annexes were also made to the Convention, viz.

Annex I. The Anatolian Company undertook that the annuities mentioned in Article XXXV would not be charged to the existing revenues of the State, but to others which might be realized at some future time, viz.

the annuities of the Public Debt.

Company undertook not to colonize any part of the line.

In 1902 the Deutsche Bank presented to the Ottoman Bank an agreement to form a Syndicate to carry out the Concession.

Lord Lansdowne was of opinion that the moment was ripe to explain to the Germans that the port of Kowloon would only be open to them on the understanding that British capital was placed on an equality with that of France and Germany, the British Ambassador concurred with this view.

On 14th April an important telegram was sent by the Foreign Office to Sir N. O'Connor instructing him to inform the Sublime Porte that England was obliged to afford the Sheikh of Kowloon full assistance against any attempt to encroach on his territories; that the British Government did not wish to obstruct the Bagdad Railway, but unless British capital received a fair share in the enterprise, in respect of construction and materials, England would not undertake to constrain the Sheikh, whose good-will was essential to the railway's success.

Sir N. R. O'Connor laid these points before the Grand Vizier, but was unable to refer to the subject of participation to avoid a breach of the Sultan's faith of international control of the line.

In April Sir N. R. O'Connor saw the German Ambassador and pointed out to him that until quite lately England had been kept in the dark as to the real terms and conditions upon which the French Syndicate had agreed. He stated that English capitalists could only count on the British Government's support on the condition that they had an equal share with the others, and he drew attention to the fact that British interests were threatened by the proposed increase of customs duties which was to meet the guarantee.

Early in June, Count Viala, acting for the French, and Dr. Zander for the German group, began to arrange differences, and fixed a meeting to be held in Paris on the 20th June.

To Foreign Office, 11th Jan. 1902.

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Sir N. R. O'Connor suggested that this would be a good occasion to present British demands through Sir Clinton Dawkins, in order to ascertain unofficially how matters stood. The Foreign Office agreed to this, but held that the Morgan firm was not suitable, owing to some friction in the city over the shipping combine, which of course is now past history.

In the beginning of September 1902, Sir Clinton Dawkins, on behalf of Morgan & Co., interviewed Mr. Gwinner, who argued that it had been agreed to allot 10 per cent. to Germany, 30 per cent. to France, 20 per cent. to London, and 10 per cent. divided between Austria and Switzerland. Sir Clinton Dawkins replied that such an arrangement was practically out of the question, as the Tariff revision would not be consented to by England under such terms as these.

Mr. Gwinner then made a tentative offer of 10 per cent. to the Anatolian Railway Company, 30 per cent. to London, 30 per cent. to Paris, and 30 per cent. to Berlin. Sir Clinton Dawkins concluded that this was more reasonable, but remarked that the Anatolian Railway Company was a German concern. Mr. Gwinner replied that, even so, it was only fair that that Company should benefit, on account of the many services it had rendered in the past.

In October Sir N. R. O'Connor had an interview with Mr. Gwinner, in the course of which the latter stated that, until some understanding was arrived at about the revision of the customs duties, nothing could be done as regards serious construction, as it might be prolonged another 200 kilom. over level country. The Ottoman Government gave a guarantee. This has proved to be what has since taken place.

About this time an attempt was made to fuse the Anatolian Railway Company with the Oriental Railways,* but failed owing to the action of the Austrian Government.

On the 16th February, 1903, an Agreement was signed at Berlin by the German and French groups (Deutsche and Ottoman Banks), concerning their participation in the Railway and reserving for England an equal share in case she joined in the project.

On the 24th February Lord Lansdowne gave Haring Brothers, Sir E. Cassel, and Sir Clinton Dawkins to understand that he considered it undesirable that the Railway should be carried out without the participation of England, and arranged that the above-mentioned business men should have charge of British interests as far as finance was concerned.

On the 5th March a contract was signed by Mr. Gwinner and the Public Debt, raising 2,000,000 l. at 4 per cent. to provide for the construction of the Konia-Eregli section.

On the same day the Minister of Finance signed the statutes of the Bagdad Company.

During the same month arrangements were made that Lord Revelstoke should represent the British group officially at a meeting fixed to be held in Paris on the 24th March, for the purpose of settling and discussing details.

At this meeting Lord Revelstoke handed to Mr. Gwinner a Memorandum fixing and embodying the objects for which, in the opinion of the representatives of the English group present, the assistance of His Majesty's Government might be obtained. They stood as follows:

§ 1. To agree to a reasonable increase in the Turkish Customs Tariff, in connection with the pending negotiations for a new Commercial Treaty, and to offer no opposition to the inclusion of a portion of the increased customs revenue among the guarantees for the Bagdad Company.

§ 2. Should the new route offer substantial advantages over existing routes for the carriage of mails to India, to make use of it for the purpose on terms to be agreed upon between His Majesty's Government and the Company.

§ 3. To give assistance (not, of course, pecuniary) towards the provision of a station with proper facilities, at or near Koweit, and co-operate in procuring convenient Customs arrangements.

Mr. Gwinner suggested that the participation should take the following form—

- 25 per cent. to Germany
- 25 per cent. to England
- 25 per cent. to France
- 10 per cent. to the Anatolian Company
- 15 per cent. to minor nations.

* The Germans claimed to own 25 per cent. of the shares of the Oriental Railways.

Sir E. Cassel suggested 26 per cent. to the three first, in order to avoid the out-voting of two of the main participants by a third in combination with the Anatolian Company and minor nations. Mr. Gwinner objected, and the matter remained in abeyance. Mr. Gwinner also wished to introduce the word "Ottoman" before "Customs" in § No. 3 of the Memorandum handed him by Lord Revelstoke; this, however, was not embodied, and, while the matter was still under discussion, a sudden outcry against British participation was raised in the English press and Parliament, and on the 23rd April Mr. Balfour withdrew British Government support from the scheme.

After this breakdown of negotiations there was a lull in the matter for a short time, but early in June a meeting was held at Berlin by the German and French groups, at which they came to an understanding—viz., 40 per cent. to France, 10 per cent. to Germany, and 20 per cent. reserved for Austria, Switzerland, Constantinople, &c.

It was, however, not approved by M. Delcasse, but was not abandoned by the French group.

and, in the course of the spring, he

which had deterred both the British Government and the British Syndicate from proceeding with the business. He regretted the failure the more, as he had accepted nearly all Sir E. Cassel's proposals concerning the amalgamation of the Anatolian Company with the British line, and that, with the consent of his Government, he had even been prepared to waive the amendment as regards customs at Koweit, as the Railway Company did not care in the least whether Koweit was a British Protectorate or not, only they wished to avoid two customs inspections—viz., one by Koweit and one by the Turkish authorities.

Sir N. R. O'Connor replied that it would have greatly assisted an arrangement had the construction of the Persian Gulf end of the line been given over to the British, to this Mr. Gwinner replied that he would have had no objection, but that had the Persian Gulf end been yielded, he could not have given up the Anatolian section, further, Russia might have objected, and thus caused some unpleasantness.

Mr. Conyngham Greene reported from Berlin that a complete understanding was arrived at between the French and German groups.

Mr. Black reported in February 1904 of the replacing of the Konia titles for the kilometre guarantee of the Konia-Eregli section, by a selection of Cazas in the Vilayets of Bagdad, Anlin, Mossul, and Harbekir, owing to the Russians objecting to the Konia Cazas being touched, the latter being already hypothecated for the Russian loan.

The prospectus of the loan on the above security was made public in October, and the Konia-Eregli section was guaranteed with great

Imperial Defence Committee held a meeting on the 12th April last, at which they came to the conclusion that it is important that England should have a share in the control of the extension of the Bagdad Railway to the Persian Gulf, with a view to insuring the effective neutralization of the terminus.

On the 12th July Sir N. R. O'Connor happened to see Dr. Zander, Director-General of the Anatolian Railway, his Excellency inferred that the Doctor was still desirous of England's participation, even if this entailed granting a special arrangement for the construction of the Bagdad-Bassorah section, though he was careful not to commit himself definitely.

Sir N. R. O'Connor assured Dr. Zander that he personally entirely shared his desire for an understanding between the two countries on this great enterprise, but that he could not answer for the views of His Majesty's Government at the present moment, or say how far they would be prepared to go in the matter, but that he thought that nothing would be lost by a private exchange of views—any, between Mr. Gwinner and Mr. Babington-Smith—as to the present position of the question, should an opportunity offer for their meeting in the Black Forest or elsewhere during the former's holidays.

During the same month Lord Lansdowne saw the French Ambassador, who assured his Lordship that France was absolutely unconnected with the railway, and

* See note at the end of Memorandum.

Foreign Office,
No. 486, July 19,
1905.

had been over since the breakdown of 1903; however, he held that the idea of allowing England to undertake the construction of the Bagdad-Bassorah section did not seem to him a good one, as it would be obvious that the British Government had a "politique" in the matter—he personally favoured an international basis throughout.

Foreign Office,
August 5, 1905.

I was told that Mr. Barry, Director of the Ottoman Bank, called at the Foreign Office and informed Sir T. Sanderson that Mr. Gwinner's agent had told him that British participation had been decided upon through Sir N. O'Connor, England receiving the Bagdad-Bassorah section, an arrangement to which the Messrs. Speyer in Germany would be favourable for the formation of the British group.

Mr. Barry was informed that this went far beyond any substantial fact, although indications were not wanting to prove that the Germans might be favourable to some such arrangement.

Lord Lansdowne wired the tenour of this interview to Sir N. R. O'Connor, asking him to be careful not to exaggerate the importance of his personal remarks as to the participation, but he pointed out at the same time the advantage of keeping a door open to future negotiations, without pledging the Government to "all-British" control over the Bagdad-Bassorah section, the Syrian railways might be considered as a counter point.

Lord Lansdowne further stated that, under the present circumstances, overtures to Germany were undesirable, and that internationalization was the best solution—viz., France, United States, and England admitted on equal terms.

(Signed) MARK SYKES.

Note on the French Group.—The following is supplied by a prominent English financial authority:

"There cannot be said to be a French group in the Bagdad Company, the French Government having shown its disapproval, and having refused to allow an official quotation of the Paris Bourse to any issue.

"The Imperial Ottoman Bank is however, a banker only, and not as representative of a French group."

No. 21

Sir N. O'Connor to the Marquess of Lansdowne, (circulated August 1905)

(No. 575.
My Lord,

Therapia, August 22, 1905

I HAVE the honour to transmit herewith to your Lordship copy of a Memorandum which Mr. Birch has prepared with great care, summarizing the Annual Report recently issued by the Administration of the Ottoman Empire, showing the results of the collection of taxes and other revenues of the Ottoman Empire for railway and loan guarantees for the year 1903-04.

The enclosed summary will be found useful as a continuation of the Memorandum prepared by Mr. Whitehead, which was transmitted to your Lordship in my despatch No. 114 of February 1904.

(Signed) N. R. O'CONNOR.

Inclure in No. 21

Memorandum respecting the Ottoman Public Debt and Railway and other Guarantees.

The Administration of the Ottoman Public Debt has just issued its Annual Report on the results of the collection of taxes and other revenues for railway and loan guarantees for the year 1903-04.

a continuation to the Memorandum transmitted to your Lordship in my despatch No. 114 of February 1904—

1. Haider Pasha-Anqura Line

Haider Pasha to Irbid	..	..	..	..	92	0
Irbid to Anqura	..	..	..	..	140	211

1034 per mile—in all 15,000 fr per kilometre. The whole gross guarantee for this railway is 15,000 fr per kilometre, or 10,340 fr per kilometre, or 16,340 fr per mile. The whole gross guarantee is 15,000 fr per kilometre, or 10,340 fr per kilometre, or 16,340 fr per mile. The whole gross guarantee is 15,000 fr per kilometre, or 10,340 fr per kilometre, or 16,340 fr per mile.

The gross receipts for the year under review were 1,100,000 fr. The amount payable by the Ottoman Government was 84,350 fr. in the previous year the receipts were 1,100,000 fr. or 321,320 fr. and the amount paid in guarantee 1,680 fr. The receipts consequently show a falling-off for the year 1903-04 of upwards of 24,000 fr. and of a corresponding increase in the amount of the guarantee paid.

2. Eski Shehir-Konin Line.

145 kilometre, 443 metres, about 277 miles.

The guarantee is a gross revenue of 13,727 fr per kilometre, or about 884 fr per mile, with the proviso that the Government is not to be responsible for any sum beyond 4,995 fr per kilometre, subsequently raised to 6,734 fr 32 c per kilometre, or about 434 fr per mile, or in all 119,900 fr, secured on the taxes of Trebizond and Constantinople.

Note.—Presumably the Government will pay 32 c per kilometre until the gross receipts reach 13,727 fr per kilometre, when the gross receipts and guarantee must be 13,727 fr per kilometre, and after the sum of 6,002 fr 68 c is attained the Government will make up the total of 13,727 fr per kilometre. The Government will pay at the rate for the first six months of 1904, or 1905, or every likelihood that the sum of 6,002 fr, or 13,727 fr, that the guarantee payable by the Turkish Government will diminish.

The receipts were, for 1903-04, 1,100,000 fr, or 88,024 fr, as against 1,100,000 fr, or 120,040 fr, a falling-off of about 32,000 fr. The amount paid in each year was 1,100,000 fr, or 119,768 fr.

3. Salonica-Monastir Line.

218 kilometre, 666 metres, or 136 miles.

Guarantee, 14,300 fr per kilometre, or 921 fr per mile. The whole gross guarantee on the taxes of the Sanjaks of Salonica and Monastir. The receipts for 1903-04 were 1,100,000 fr, or 73,080 fr; the amount paid in guarantee was 1,100,000 fr, or 30,835 fr. In 1902-03, the receipts were 1,100,000 fr, or 63,458 fr, and the guarantee paid 1,100,000 fr, or 61,340 fr.

1. Salonica-Constantinople Junction Line.

Guarantee, a gross revenue of 15,500 fr per kilometre, or 998 fr per mile—in all, 15,500 fr per kilometre. The receipts for 1903-04 were 1,100,000 fr, or 84,016 fr, and the guarantee paid 1,100,000 fr, or 231,828 fr. In 1902-03, the receipts were 1,100,000 fr, or 71,000 fr, and the guarantee paid 1,100,000 fr, or 242,251 fr. The whole gross guarantee on the taxes of Gümüshane, Serris, Drama, and Dedeağaç.

Smyrna-Cassaba Line.

100 kilometre, 305 metres, or 62 miles.

The receipts for 1903-04 were 1,100,000 fr, or 84,016 fr, and the guarantee paid 1,100,000 fr, or 231,828 fr. In 1902-03, the receipts were 1,100,000 fr, or 71,000 fr, and the guarantee paid 1,100,000 fr, or 242,251 fr.

by 50 per cent. of the gross receipts, the deficiency to be made good from the tithes on cereals for the Sanjak of Aidin and certain secondary tithes.

The second section has a gross kilometric guarantee of £ T. 830'76, or 1,216l. per mile in all, nearly 190,000l., secured on the excess of the cereal tithe of Sarouhan and Denizli.

In 1903-04 the gross receipts of the former section amounted to £ T. 1'96,743, and in 1902-03 to £ T. 1'84,983. The receipts in 1902-03 were only £ T. 184,983, or £ T. 2,454, or 2,231l. The receipts in 1903-04 were only £ T. 184,983, or upwards of 10,000l. less, and the deficiency made good was £ T. 9,136, or 8,306l. On the second section, the receipts for 1903-04 were £ T. 51,105, or 46,480l., and the guarantee paid was £ T. 157,541, or 143,220l. The receipts in 1902-03 were £ T. 53,771, or 18,867l., and the guarantee paid was £ T. 154,892, or 140,810l.

6. Damascus-Hama and Estamon Line.

188 kilom., 188 metres, about 117 miles.

Guarantee, a gross kilometric revenue of 15,000 fr., or 906l. per mile, to be paid to the Government, or 12,500 fr., per kilom., or 805l. per mile, if the line should be extended to join the Baghdad line. Total of guarantee 113,000 fr., secured on the tithes of St. Jean d'Acce and the nass.

The Government requests for the service of the following loan:

Fisheries loan, converted in 1903, bearing 4 per cent. interest, $\frac{1}{2}$ per cent. sinking fund, annuity required, 108,000l. Guarantee: Fishing dues, shooting licences, fishing licences, Tundek sale licences, silk tithes, additional stamps, and Smyrna Sanjak cereal tithes up to £ T. 30,000.

	£ T.	£	£ T.	£
Net receipts in 1903-04	178,010	= 149,100	Balance over	54,010 = 51,736

Ottoman 4 per Cent. Loan of 1890. Amount, 1,545,000l., 4 per cent. interest, 1 per cent. sinking fund. Annuity required, 227,250l. Security, tithes on cereals of Broussa, Karahissar, Karaman, Kir Shehir, Kibisarie, and Yozgat, amounting to £ T. 231,000, or 210,000l., plus payments from the Customs amounting to £ T. 80,000, or 72,727l.—in all, 282,727l.

	£ T.	£
In 1903-04 the receipts were—		
Taxes	154,356	or 144,356
Customs	30,000	or 27,272
Total	184,356	or 171,628
In 1902-03 the receipts were—		
Taxes	147,711	or 137,711
Customs	19,000	or 17,272
Total	166,711	or 154,983

Ottoman Obligations, 5 per cent., 1896. Amount, £ T. 3,272,720, or 2,975,200l. Interest 5 per cent., sinking fund $\frac{1}{2}$ per cent. Annuity required, £ T. 180,000, or interest 103,636l. Guarantee—

	£ T.	£
Sheep tax of Aidin, Salouca, and Broussa	130,000	
Secondary tithes of Broussa, Karahissar, Karaman, Smyrna, Sarouhan, Meateshe, Denizli, and Buys	80,000	
Total	210,000	or 192,727

	Receipts	1903-04	1902-03
		£ T.	£
Sheep tax	..	130,000	130,000
Tithes	..	80,000	80,000
Total	..	210,000 or 201,792	210,000 or 212,727

Four per Cent. Loan of 1903.—Amount, £ T. 2,666,664, or 2,424,240l. Four per cent. interest, $\frac{1}{2}$ per cent. sinking fund. Annuity required, £ T. 120,000, or 109,090l. Security—

	£ T.	£
Tithes of Meateshe, Aidin, Jozna, Serfiche, Sakka, Oama, and Yezma	82,700	or 75,162
$\frac{1}{2}$ per cent. additional on tithes	70,000	or 63,636
Total	152,700	or 138,816

Receipts	1903-04	1902-03
	£ T.	£
Taxes	124,485	or 116,480
Customs	78,621	or 70,621
Total	203,106 or 197,101	187,101 or 187,101

Four per Cent. Bagdad Railway Loan (1st series). Amount 2,160,000l. Interest 4 per cent. sinking fund, 10087.58 per cent. Annuity required, £ T. 97,119'00, or 88,290l. Security, tithes as follows—

	£ T.	£
Taxes	11,111	or 10,111
Customs	2,222	or 2,022
Leases	6,667	or 6,067
Mineral rights	1,111	or 1,011
Amusements and other	1,111	or 1,011
Total	22,222	or 20,222

The Government also assigns its share of the gross receipts of the 200 kilom. of the railway.

Collected in 1903-04, £ T. 90,250 = 82,046l.

The Administration of the Public Debt also collects the following revenues for Government—

Secondary tithes (on valloona, opium, gum, agricultural &c.) in the sanjaks of which the principal tithes are assigned to the Anatolian and Salouca Monaster Railway, and the 4 per Cent. Ottoman Loan.

	£ T.	£
Receipts—		
1903-04	10,167	or 14,588
1902-03	23,801	or 21,637

Education rate (1 $\frac{1}{2}$ per cent. on the silk tithe and the tobacco tithe, two-thirds of the product going to the Agricultural Bank and one-third to the Ministry of Public Education).

	£ T.	£
Receipts—		
1903-04	57,228	or 52,000
1902-03	44,000	or 40,000

Military preparations tax (6 per cent. on all sheep tax, tithes, and other imports). Total collected in provinces in 1903-04, £ T. 103,154, or 93,777l.

TOTAL Amount of Tithes Encashed in the Provinces by the Public Debt Administration.

	1903-04.	1904-05.
	£ T.	£ T.
Haider Pasha-Angora Railway	199,689	133,124
Eski Shehir-Konia Railway	91,318	92,181
Salonica-Monastir Railway	164,157	179,182
Salonica-Constantinople Junction Railway ..	146,272	162,853
Smyrna-Cassaba Railway	254,435	275,006
Damascus-Hama Railway	109,293	114,744
Osmalie 4 per Cent. Loan	255,731	292,081
5 per Cent. 1856 Loan	255,641	216,205
4 per Cent. 1903-04 Loan	124,816	128,166
Bagdad Railway (1st series) .. ..	..	90,330
Military preparations tax .. ..	..	163,153
Tithes for Treasury	23,801	16,183
4 per Cent. 1903 Loan	153,744	186,316
Education rate	45,029	50,302
Total	£ T. 1,824,923	2,156,262
= £	1,659,930	1,954,874

TABLE showing Nett Receipts and Guarantees paid in 1903-04.

	Nett Receipts.	Paid in Guarantees.	Balance.
	£ T.	£ T.	£ T.
Haider Pasha-Angora Railway	214,927	92,578	+ 122,349
Eski Shehir-Konia Railway	65,658	121,744	- 56,086
Salonica-Monastir Railway	162,189	55,919	+ 106,270
Salonica-Constantinople Junction Railway ..	152,298	255,022	- 102,724
Smyrna-Cassaba Railway	229,314	130,995	+ 98,319
Damascus-Hama Railway	194,462	98,078	+ 96,384
Tithes for Treasury	5,433	..	+ 5,433
4 per Cent. 1903 Loan	175,811	118,100	+ 57,711
4 per Cent. Osmalie Loan	274,731	249,975	+ 24,756
5 per Cent. 1856 Loan	181,404	180,684	+ 720
4 per Cent. 1901 Loan	111,363	84,370	+ 26,993
Bagdad Railway Loan (1st series)	84,738	84,615	+ 123
Military preparations tax	93,833	80,000	+ 13,833
Education rate	57,926	57,926	..
Total	£ T. 1,919,127	1,649,337	269,790
= £	1,744,661	1,499,297	245,364

RAILWAY Guarantees and Receipts, 1903-04.

	Amount of Guarantee.	Gross Receipts.	Guarantee Paid.
	£	£	£
Haider Pasha-Angora	229,228	243,264	84,434
Eski Shehir-Konia	244,588	88,023	119,768
Salonica-Monastir	125,191	73,681	50,935
Salonica-Constantinople Junction	216,565	84,016	231,838
Smyrna-Cassaba	282,220	225,317	145,454
Damascus-Hama	172,313	23,556	88,163
Total	1,411,405	737,850	791,492

RAILWAY Receipts, January 1 to June 30, 1905, compared with same period of 1904.

	1905.	1904.	Difference.
	£	£	£
Haider Pasha-Angora	111,997	95,144	+ 16,783
Eski Shehir-Konia	61,310	29,422	+ 31,888
Salonica-Monastir	35,669	28,398	+ 7,271
Salonica-Constantinople Junction	79,030	41,198	+ 37,832
Smyrna-Cassaba— Old line	54,632	74,402	- 19,770
Extension	19,797	16,070	+ 3,727
Damascus-Hama	13,640	11,524	+ 2,116
Total	535,575	503,653	+ 31,922

Calculating the receipts for the second half-year as equivalent to those for the corresponding period of 1904, the amounts to be paid in guarantees during the current year are estimated as follows:—

Name.	Total Guarantee.	Estimated Receipts, 1905.	Probable Deficiency, 1905.	Guarantee paid in 1904.	Difference for 1905.
	£	£	£	£	£
Haider Pasha-Angora	229,242	249,456	69,267	84,081	- 15,294
Angora-Eski Shehir	244,588	149,536	94,809	119,768	- 24,950
Salonica-Monastir	125,191	61,074	44,359	43,115	+ 1,244
Salonica-Constantinople Junction	216,565	86,110	230,452	217,458	+ 2,604
Smyrna-Cassaba— Old line	91,400	83,597	7,803	..	+ 7,803
New line	180,818	50,694	130,224	141,630	- 1,786
Damascus-Hama	172,313	26,245	86,668	88,398	- 1,750
Total	1,410,084	736,664	674,102	704,930	- 39,828

N.B.—The last two Tables, being derived from another source, contain slight discrepancies, due to varying rates for computing exchange, &c.

(Signed) E. O. BLECH.

No. 22.

Memorandum by Consul-General Schoenbach (Berlin) on the Bagdad Railway.—(Received September 12, 1906.)

THE Concession for the construction of a railway from Konia to Bagdad was granted by the Sultan to the well-known Anatolian Railway Company, which, in its turn, transferred it to the Société Impériale Ottomane du Chemin de Fer de Bagdad, specially formed for this purpose. The capital of the new Company is 15,000,000 fr., half of which has been paid in full. The Imperial Ottoman Government and the Anatolian Railway Company participate each with 10 per cent. in the capital; the remaining 80 per cent. were taken over by an International Syndicate. The Concession includes the following stipulation regarding a kilometric guarantee:—

“Le Gouvernement Impérial garantit au concessionnaire, par kilomètre construit et exploité, une annuité de 11,000 fr., ainsi qu’une somme forfaitaire de 4,500 fr. par année et par kilomètre exploité pour frais d’exploitation.”

The Concession further stipulates that against the above annuity for the first part section of the railway, viz., the section Konia-Eregli-Bulgurlu, with a total length of 200 kilom., 54,000,000 fr. were to be paid to the Bagdad Railway Company in bonds of the Imperial Government. The receipts of the railway are, of course, appropriated for the service of these bonds issued as Bagdad Railway loan. Therefore, this loan constitutes a debt of the Bagdad Railway, although formally the

Imperial Ottoman Government is exclusively responsible to the bondholders, and for this reason the whole section of the railway, including rolling-stock, &c., has been mortgaged to the bondholders. In the balance-sheet of the Bagdad Railway Company for 1904, the "54,000,000 fr. subvention reçue par le Gouvernement Impérial Ottoman" appear, therefore, as liability of the Company, and on the other hand "48,834,881 fr. 91 c. premier établissement" as asset, as well as "771,000 fr. matériel roulant, 77,300 fr. inventaire, et 3,216,500 fr. effets en portefeuille (8,433 obligations de l'Emprunt Impérial Ottoman du Chemin de Fer de Bagdad)." This latter item shows that the Company kept back a part of the bonds, while the remaining, about 30,000,000 fr., were sold to a Syndicate.

The section Konia-Eregli-Bulgurlu was constructed by a German Limited Liability Company, specially formed for this purpose as a Construction Company and domiciled at Frankfurt-on-the-Main. Immediately after the completion of the section this Construction Company decided to dissolve. Of course, this transaction left a not inconsiderable profit, which, however, according to German law, can only be distributed one year after the liquidation has been completed, i.e., at the end of 1905. I am not in a position to state the amount of the profit realized, but I can say with certainty that an estimate of 800,000 fr. is absolutely fantastic and a very long way off the probable figure. I wish to call attention to the fact that the "48.8 millions premier établissement" include the discount resulting from the negotiation of the loan, which appears with the full nominal amount of 54,000,000 fr. in the balance-sheet, while the proceeds only slightly exceed 80 per cent. By keeping back bonds which were not negotiated to the amount of 3.2 million francs the Bagdad Railway Company have created a reserve fund. But this can clearly be seen from the published balance-sheet for 1904, and no secret is made of it.

No. 23.

Memorandum by Sir T. H. Sanderson.

(Confidential.)

SIR E. FITZGERALD LAW said that while recently at Berlin he had had a conversation with Dr. Gwinner, of the Deutsche Bank, in regard to the Bagdad Railway, and had been authorized to communicate the following proposals from him:—

1. He was ready to give his assistance towards obtaining from the Porte the extension which the Smyrna-Aidin Railway Company desired, if we, on our side, would assist the Anatolian Railway to have the guarantee of the section of the line between Eski Shehr and Konieh put on the same footing as that of other portions of the line.

2. He was ready also to enter into negotiations with the Smyrna-Aidin Railway Company for amalgamation of the line with the Anatolian Railway, on terms acceptable to the British proprietors.

3. If Sir James Mackay and his friends were desirous of building the section of the Bagdad Railway from Bussorah to Koweit, he was ready to agree that that section should be in British hands as part of a general arrangement for British participation in the undertaking. It was not, in his opinion, necessary that Koweit should be the Persian gulf terminus, but he was willing that it should be so, provided some arrangement were made to obviate the inconvenience of a double customs frontier, one for the Sheikh of Koweit, and one for the Turkish Government.

Sir E. Law thought that this question offered no serious difficulty.

(Signed) T. H. SANDERSON.

Foreign Office, October 3, 1905.

Sir E. Law writes that Dr. Gwinner particularly does not wish Sir E. Cassel to be brought into the matter.

No. 24.

India Office to Foreign Office.—(Received October 5.)

THE Under-Secretary of State for India presents his compliments to the Under-Secretary of State for Foreign Affairs, and, by direction of Mr. Secretary Brodrick,

forwards herewith, for the information of the Secretary of State, copy of a telegram to the Viceroy, dated the 3rd October, relative to the report that German engineers are expected at Koweit to inquire into the possibility of railway construction.

Copies have been sent to the Director of Military Operations.

India Office, October 3, 1905.

Inclosure in No. 24.

Mr. Brodrick to Government of India.

(Telegraphic.) P.
KOWEIT.

India Office, October 3, 1905.

Information has been received from Bussorah by His Majesty's Ambassador at Constantinople, to the effect that German engineers, who are to inquire into the possibility of railway construction, are expected to arrive at Koweit at an early date. They are said to be proceeding via Bombay, and to have sent on their servant in advance to Koweit to make arrangements for their stay. Have you any confirmation of the report?

Should report be correct, it would be well for Knox to reach Koweit before the Germans, if possible. He is due to arrive at Bombay about the 12th instant.

No. 25.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received October 16.)

(No. 694.)

My Lord,

Therapia, October 10, 1905.

I HAVE the honour to transmit to your Lordship herewith copy of a despatch and some notes sent by Major Newmarch, British Resident at Bagdad, in connection with Captain Bigham's Memorandum on the Bagdad Railway.

It will be seen that Major Newmarch is of opinion that a steam-ship service to Mosul, although feasible, is not likely to be undertaken by the Turkish Company for some time.

He also draws attention to the advantages of competition between Messrs. Lynch and the Saniya Company as compared with the virtual monopoly previously held by the former.

Your Lordship will notice that Major Newmarch does not agree with Captain Bigham on the subject of the Bagdad-Khanakin branch, which he holds would not be unremunerative were it connected with Kerbela and Nejed.

In a postscript to the notes on the Memorandum Major Newmarch informs me that a tramway has been proposed which would connect Damascus with Bagdad; he has not yet obtained any particulars about the venture; however, the inclosed sketch,* prepared by Mr. Mark Sykes, shows the bearing such a line would have on communications between Bagdad and the Syrian and North Mesopotamian towns.

I have, &c.

(Signed) N. B. O'CONNOR.

Inclosure in No. 25.

Consul-General Newmarch to Sir N. O'Connor.

(No. 65. Confidential.)

Sir,

Bagdad, September 4, 1905.

I HAVE lately received from the Government of India a Memorandum dated the 23rd June last by the Board of Trade on the Bagdad Railway.

2. This seems to me such an interesting and valuable document that I venture

* Not printed.

[1608]

M

to submit the accompanying remarks regarding portions of it, in the hope that they may be of some slight use to the compiler of the Memorandum.

I have, &c.
(Signed) L. S. NEWMARCH, Major,
Political Resident in Turkish Arabia.

Notes on the Board of Trade's Memorandum respecting the Bagdad Railway, dated
June 23, 1905.

Paragraph 27 of that Memorandum.—River-borne traffic will always be cheaper than rail-borne traffic, and it seems doubtful whether the railway will ever be able to compete with the river.

The Turks, i.e., the Saniya Administration, do contemplate extending the river service in the near future as far north as Mosul, and I have been informed by the working manager of the local Saniya Administration, as also by the Chief of the Staff of the 6th Army Corps, that it is intended to spend £ T. 75,000 on the improvement of the river between Bagdad and Mosul. I have seen this portion of the river at its best and at its worst, i.e., in the month of April, when the water is at its highest, and also in the season of low water, and I am of opinion that, even with a much larger expenditure than £ T. 75,000, this portion of the river will not be navigable for more than four or five months in the year, and then only for vessels of a draught not exceeding 30 inches to 36 inches. During the remainder of the year the vessels employed on this service will be unable to ply above Tikrit, and perhaps not higher up than Samarra.

The downward journey will always be quite easy for rafts, which are now largely employed, but the rafts cannot get back again, and are sold at the end of the downward journey for the value of the wood of which they are composed. The skins on which they float are sometimes returned on mule-back.

Paragraph 28.—The high rates hitherto prevailing have been largely due to the fact that the Euphrates and Tigris Steam Navigation Company have had a virtual monopoly of the carrying trade. The recent introduction of two new steamers on the river by the Saniya Administration has had the effect of reducing freights slightly, and for the public good it is to be hoped that this reduction may continue, for during many years past the Euphrates and Tigris Steam Navigation Company have realized profits of 20 per cent. and over owing to this virtual monopoly of the carrying trade. If the Euphrates and Tigris Steam Navigation Company were to take over the Saniya steamers, this would create a worse monopoly than before. Competition, indeed, appears to be essential for the good of the public.

Paragraph 30.—The current is not the only difficulty, nor, indeed, the greatest difficulty, in navigating the Tigris between Bagdad and Mosul. Steamers could easily be constructed strong enough to stem the current and even tow barges against it. The great difficulty, for at least half the year, would be the shallowness of the water.

The Bagdad-Khanakin Branch.

Paragraph 37.—I, too, have travelled over not merely the road between Bagdad and Khanakin, but the surrounding country, and I do not quite agree with the opinion expressed in this paragraph. I think the pilgrim traffic on this line alone would almost make it pay, especially if it were continued to Samarra, Kerbela, and Nejed, the great centres of Shiah pilgrimage and worship. Again, the railway rates would be so much cheaper than caravan rates that they would almost certainly be preferred in almost all cases. Moreover, the railway would be a much safer means of conveyance than a caravan, which is very liable to be plundered en route.

The country through which the line would pass is sometimes inundated, but not to any great extent or to any great depth. I think these spaces where water lodges could easily be avoided, and, if not, an embankment of 3 or 4 feet or a pier-way would easily carry a train over them. Moreover, the water only lies there for a very short time, probably for not more than two months, so that no expensive bridge would be required, but merely a low embankment with openings at intervals to let the water through.

Bakuba and Khanakin, and even Shahraban, are rather large "villages," and would increase in size and importance with the advent of the railway.

	Approximate Population.
Bakuba	6,000
Khanakin	2,500
Shahraban	1,000

Paragraph 38.—"At Bassorah there are nearly always three to four months' of arrears of cargo waiting to go up the river."

This used to be the case, but is not so now. The two large and new Saniya steamers have relieved this congestion.

(Signed) L. S. NEWMARCH, Major,
Political Resident in Turkish Arabia.

Bagdad, September 1, 1905.

P.S.—Since writing the above I have heard, on what I believe to be good authority, that M. Moujelle, a Frenchman who is employed in this vilayet as an engineer, having been asked to survey and report on the proposed navigation of the Tigris as far as Mosul, has pronounced the scheme to be impracticable.

I have also learned that a rich merchant here named Gabriel Asfar, who is a Turkish subject and an old resident of Bagdad, has applied for a concession to make a tramway from Bagdad to Damascus. It is said that he is likely to get this concession, but that before granting it the Porte has asked for the names and particulars of all the shareholders. Mr. Asfar proposes to charge 6l. for each passenger for the journey from Bagdad to Damascus, and expects that the journey will not take more than six days. He declares that the line presents no engineering difficulties, and is, of course, confident that it will be remunerative. I will report further about this scheme when I get more information.

L. S. N.

No. 26.

Sir N. O'Connor to the Marquess of Lansdowne.—(Received October 23.)

(No. 709. Confidential.)

My Lord,

Therapia, October 14, 1905.

I HAVE the honour to acknowledge your Lordship's despatch No. 317 of the 26th ultimo, inclosing a Memorandum by Consul-General Schwabach, who is a Director of the Bagdad Railway Company.

In view of Mr. Schwabach's statements (1) that he considers the figure of 800,000l. as the estimate of the profit on the construction of the Konia-Eregli section as "absolutely fantastic," and (2) that he presumes that whatever profits were made will be finally divided by the Construction Company, it would be as well to review the actual financial arrangements of the Bagdad Railway Company.

The Bagdad Railway Company started with a nominal capital of 600,000l. Only half of this was subscribed.

The detail of the subscription is as follows:—

	Per Cent.
By the Imperial Ottoman Government	10
" Anatolian Railway Company	10
" Deutsche Bank group	80

It is suggested that the 20 per cent. found by the Anatolian Railway Company and Imperial Ottoman Government is only a nominal subscription, and was perhaps never really paid up; at any rate, the Deutsche Bank group provided 240,000l.

It is remarkable that the Bagdad Railway Company's balance-sheet shows a loan of £ T. 200,000, or 181,818l., to the Imperial Treasury—an advance which swallows

up the bulk of the paid-up capital. This loan is said to have facilitated the Krupp transaction.

To defray the actual cost of the construction of the line, an Ottoman Government loan of 2,100,000*l.* was issued at 4 per cent. The interest on this loan is secured by the 88,000*l.* paid by the Turkish Government to the Bagdad Railway Company in kilometre guarantee on the Konia-Eregli section.

Of this loan, 128,660*l.* nominal worth of bonds were kept back by the Bagdad Railway Company, and about 2,000,000*l.* were issued by public subscription at the price of 80:30, thus realizing 1,726,000*l.*, or, at the price of 80 per cent. (Consul-General Schwabach's figure), 1,520,000*l.* to the Bagdad Railway Company, the difference between the two sums being possibly the commission and expenses of the issue.

This money was issued by the Bagdad Railway Company to construct the Konia-Eregli section.

It is important to note that the bondholders who provide the capital, and are secured by the kilometre guarantee provided by the Imperial Ottoman Government, have no risk or stake in the actual success or non-success of the line, save that their bonds are secured by a mortgage on the section and rolling-stock which their money has provided.

As regards the actual construction of the line, the Bagdad Railway Company, having obtained the money from the loan, employed a Construction Company to carry out the work, which the latter performed at a cost to the Bagdad Railway Company (as per Bagdad Railway Company's balance-sheet) of 1,953,395*l.* This sum, however, is only a nominal worth of bonds, and, therefore, as Consul-General Schwabach says, 20 per cent. must be deducted from it, as it includes discount, leaving 1,562,000*l.*, or 7,814*l.* per kilometre.

When the section was completed the Construction Company was wound up, and as Mr. Schwabach says, the profit will be divided a year after the dissolution of the Company in question.

There are, however, two points to which I would draw attention: 7,814*l.* per kilometre, is an inflated price, and it is well known in Constantinople that 3,500*l.* is nearer the mark; secondly, there is little doubt that the Construction Company and the Bagdad Railway Company are one, and consequently a division of profits among the former will probably amount to an addition to the capital of the latter, the object in employing a dummy Construction Company being precisely to conceal from the public and the Ottoman Government the large sum laid aside from the profits on the Konia-Eregli section for further construction.

That that sum has been laid aside, and that it amounts to close on 800,000*l.*, I have on an authority which I do not question.

As Mr. Schwabach is not only a Consul-General, but also a Director of the Bagdad Railway Company, and as we have obtained some of the foregoing information from the Ottoman Bank—another interested party—it would not appear desirable to show him this despatch.

I have, &c.
(Signed) N. R. O'CONNOR.